NOVEMBER 2, 1987

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TIME

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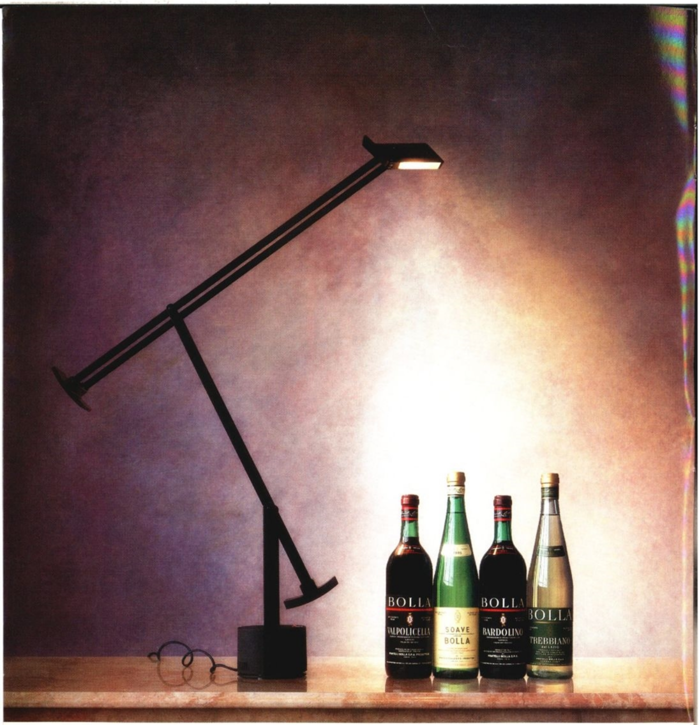

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Bristles rotating 4,200 times a minute literally scour plaque off your teeth.

The INTERPLAK Home Plaque Removal Instrument cleans teeth virtually plaque-free.

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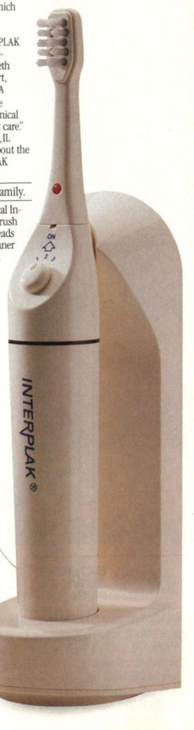

NOVEMBER 2, 1987

TIME

THE WEEKLY NEWSMAGAZINE

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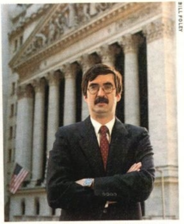
A Letter from the Publisher

It was the day after the end of the world, and Charles Alexander's lunch of salad and Pepsi Free sat untouched on his paper-strewn desk. Alexander, the editor of TIME's Economy & Business section, had spent the past nine hours blocking out this week's 24-page cover on the cataclysmic demise of the five-year-old bull market. Just after the market closed on Black Monday, editorial queries went out to an army of more than 25 TIME correspondents in 20 financial capitals around the world. Before long, their reports would begin hitting the In baskets of 30 editors, writers and reporter-researchers in New York City. As coordinator of the magazine's coverage of the Crash of '87, Alexander for the rest of the week would find his meals as elusive and unpredictable as the stock market.



BILL FOLEY

Senior Editor Alexander on Wall Street

Alexander had had premonitions of bad news. In a story he ordered and edited only four weeks earlier, TIME drew worrisome parallels between the Wall Street boom and the events that led to the Crash of '29. Still, the 508-point drop in the Dow Jones industrials on Black Monday was such an unsettling event that a major examination was in order. Under Alexander's supervision, TIME directed its considerable resources at determining why the bubble burst, where the financial markets were headed, and what the implications of the crisis were for both the global economy and the wallets of individual consumers.

TIME's reporters dashed from scene to scene gathering impressions. "Trying to cover a stock market crash," said Senior Correspondent Frederick Ungeheuer, "is a little like trying to find out what's happening on a battlefield." Ungeheuer dispatched members of the New York bureau to cover upstairs trading rooms and to the floor of the exchange. Other reporters were in every major bourse in the world, from Tokyo to London, from Chicago to Los Angeles. Back in New York City, Senior Writer George Church tackled the dramatic downturn with the authority of his many years as the magazine's premier economic and political writer.

As the week wore on and the stock market fluctuated wildly, Alexander confirmed his sense that economic history was being made. "Black Monday was worse than the worst day of 1929," he says. "No matter what happens to the market now, the economic problems that triggered the crash will still be with us. Everyone could be affected by this event, including my children and even my grandchildren."

Robert L. Miller

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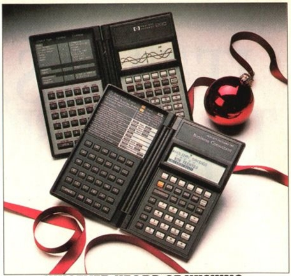

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Feuding Sexes

To the Editors:

The new Hite report is about a very small group of American women who are recounting age-old male-female differences and resentments [SEXES, Oct. 12]. As a scientific study, the report is doubtful. As an argument, it is sterile. Men and women will always be different, because they are built on dissimilar, but complementary, biological foundations. The solution is to understand and appreciate these natural differences.

Al Michaels
Paris

Ever since Adam complained to God that Eve caused him to sin, men have blamed women for all problems. Women have responded for thousands of years in thousands of ways. Now women are angry and hostile; their reaction is pandemic.

Dolores F. Pevehouse
New London, Texas

It should come as no surprise to the women who have tried to "have sex like men" that such behavior is unsatisfying. Men and women are different physically, sexually and emotionally. The women Hite describes appear doomed to become angrier and more frustrated because of their inability to learn to accept and appreciate the inherent differences between men and women.

William R. DeReuter
Falls Church, Va.

Of course women become unhappy trying to fulfill all those multiple-career objectives. If they would stay home and let the men earn the income, they would be more fulfilled. They must stop listening to the nags who call themselves feminists. On the other hand, the "liberated" men from the '60s and '70s should quit being wimps and take on the sole support of their families. Don't get married if you can't support your wife.

Fred S. Teeboom
Nashua, N.H.

I find it interesting that feminists like Shere Hite blame men for their problems. They should remember that women are the mothers of these same men.

Nadya Stoy
Menlo Park, Calif.

Men are great—for killing spiders and lifting heavy things.

Shirley Montague Andreozzi
College Station, Texas

Shere Hite, you say. Or is the lady's name perhaps Sheer Hate?

George Frederick Takis
Berlin

The dog remains man's best friend.

Bill Dusterhoff
Boston

Two conclusions follow from the Hite report: 1) women should stay away from men; 2) the celibacy of the clergy, far from being out of date, is an idea whose time has come.

(The Rev.) Francis Canavan, S.J.
New York City

My Scottish grandmother, who had ten children and a husband who brought workmen home for dinner in the days before telephones, said, "Men are only good for winding the clocks on Sundays."

Irene W. Laune
Phoenix

The Bork Battle

Rejecting the nomination of Robert Bork to the Supreme Court is a travesty [NATION, Oct. 12]. The hearings showed Bork to be the kind of Justice so needed in the 1980s. Americans obviously are not ready for a man of intellect and ethics.

Paula Sigman
Dallas

Bork in his derision of politics as the cause of his defeat harbors an illusion. It was Reagan politics that nominated him and his own judicial record and philosophy that defeated him.

Bernard A. Kansky
Needham, Mass.

There is nothing dishonorable or even unusual in the President's attempt to extend his influence beyond his term of office by reshaping the philosophic composition of the Supreme Court. But to demean the inevitable political opposition as a "lynch mob" and to pretend that Bork's specific views are of no consequence is glaring hypocrisy.

David L. Richards
San Anselmo, Calif.

U.S. in the Gulf

Cheers for America's actions in the gulf [NATION, Oct. 5]. It is about time someone showed the Iranians that the world is not going to sit and watch their acts of vandalism. When dealing with such an irrational regime as the Ayatullah Khomeini's, the policy of fighting fire with fire unfortunately seems to work best. The only way to put a halt to Khomeini's havoc is with a multinational military effort.

Baher Boctor
Alexandria, Egypt

Souring Sanctions

Your report on the failure of sanctions against South Africa [WORLD, Oct. 5] points out the ineffectiveness of economic restrictions. What's more, the Comprehensive Anti-Apartheid Act has caused the U.S. to look to the Soviets as a source for strategic materials. Prolonging controls will only benefit the Soviet Union, with the U.S. winding up with the short end of the stick.

Achim Meilenbrock
Munich

I hope the U.S. is finally opening its eyes to the real effects of sanctions. From the start, it was obvious that such measures were going to hurt black South Africans, the very people sanctions were supposed to help.

Deborah Cundill
Lynchburg, Va.

Canada's Two Cultures

Quebec's decision to ratify the federal constitution may be a great victory for the province's Premier Robert Bourassa, but it is a hollow victory for those French Canadians who live outside Quebec [WORLD, Oct. 5]. With this endorsement, the federal and provincial governments are giving special status to Quebec in the hope that all French Canadians will ultimately live in this one province. Then there will be no need to provide French services and schools across the country and no need for the English community to learn French. Canadians should be proud to live in a country where they can be a part of two cultures.

Liette A. Desjardins
Rigaud, Que.

Clever Ladies

In your story on women who profit from publicity, you wrongly lump together the characters of Fawn Hall, Jessica Hahn and Donna Rice [ETHICS, Oct. 12]. Hall is a patriot, Hahn an innocent victim, and Rice a parasitic party girl whose only talent is breaking Harts. By showing moral courage at the Iran-*contra* hearings, Hall became a heroine. Hahn is to be admired for exploiting her exploiter, a phony Holy Joe she believed in. And Rice? Well, she has a voracious appetite for fame and money, with no concern for who may get hurt.

Dale Koch
Lansing, Ill.

Letters

How dare you put Hall on the same level as Hahn and Rice! Hall was a loyal employee who believed in her boss, Lieut. Colonel Oliver North. You may think she was wrong, but in her soul she knew she was right.

Lynn Darlington
Paradise, Calif.

In considering the ethics involved in the commercial exploitation of the adventures of Rice, Hahn and Hall, you have to assess the market for their product. That such a market exists is testament to the puerile emotional level and arrested intellectual status of our citizenry.

Thomas A. West
Reno

Historic Headlines

In your story on E. Clifton Daniel's selection of the Top Ten headlines of the 20th century [ESSAY, Oct. 12], both you and Daniel missed the boat. A major event that affected the U.S. and Europe for years was the 1929 New York stock-market crash. It should have been included in the list.

Paul J. Gruber
Tallahassee

Your Essay asks, "What does anyone know about the Pope who built the Sistine Chapel except that he hired Michelangelo to paint the ceiling?" If the Pope who built the Sistine Chapel hired Michelangelo to paint the ceiling, it would on several counts be worthy of a Top Ten headline. Sixtus IV (1414-84) was Pope when the chapel was completed in 1481. He was long dead when his nephew Julius II persuaded Michelangelo in 1508 to undertake the decoration of the ceiling.

John W. Padberg, S.J., Director
Institute of Jesuit Sources
St. Louis

Success Through Seminars

In your article about the many seminars being conducted all over the country [AMERICAN SCENE, Oct. 12], you ask how Alexander the Great was able to be so successful without the benefit of business seminars. Well, remember that Aristotle was Alexander's tutor, and don't overlook Antipater and Parmenion, the great Macedonian generals who instructed Alexander. Some seminars!

Durrett Wagner
Evanston, Ill.

A business seminar? That idea was pioneered by Dale Carnegie in 1912.

Amy L. Hake
Arkansas City, Kans.

LETTERS TO THE EDITOR should be addressed to TIME, Time & Life Building, Rockefeller Center, New York, N.Y. 10020, and should include the writer's full name, address and home telephone. Letters may be edited for purposes of clarity or space.

American Scene

In Florida: "Lock Up!" And the Pulse Pounds

The late-afternoon sun is white and hot, and it bleaches the blue sky. The ocean is a pale aqua-green. It is as clear and warm as a drawn bath. A soft, insistent ocean breeze rustles the big, faded yellow-green fronds of the palm trees. The sunbathers are the color of light coffee. Each lies on the sand, one knee indolently flexed, on a blanket whose color has been drained by the sun. Another languid sun-drenched day on Fort Lauderdale's beach.

In the dark low-ceilinged basement lounge of the Candy Store bar, the arm wrestlers are getting edgy. They have been taking turns "locking up" onstage and then pulling on one another's arms for four hours now. There is a break in the action as the chiropractor, in white, manipulates the arm of an injured competitor. The emcee grabs the microphone: he does not like to see arm wrestlers get edgy, not even if he is Keith D. Jones, a 6-ft. 1-in., 290-lb. Filipino American from Redondo Beach, Calif., who was once the superheavyweight arm-wrestling champion of the world. Jones coached Sylvester Stallone in the arm-wrestling movie *Over the Top*. He taught Stallone how to curl his opponent's wrist inward to weaken it and how to psych out an opponent by puffing out his cheeks like an adder's and bulging his eyes widely, as if he were having some sort of fit. He also taught Stallone to turn his baseball cap backward to imply he was ready for business.

"There's more psyching in arm wrestling than in any sport," says Jones. "Technique is important too." He raises his right forearm, which is about the size of a side of beef. "Strength counts too." He smiles behind dark sunglasses.

Jones, who is emceeing this afternoon's Southern States International Arm Wrestling Council championships, describes himself as a "mild-mannered guy." He works as an actor, a bodyguard and sometimes as a bouncer at Tequilla Willie's. He doesn't have much trouble with drunken customers, he says, because if they misbehave, "I just rip their arms off." He smiles again behind his dark shades. "Just kidding. Really, arm wrestlers are nice guys. See that guy over there? He killed his parents. Just kidding."

Jones does admit that serious arm wrestlers can be a touch eccentric. They have names like the Ripper, Goliath and the Punta Gorda Maniac. Their appearance often belies their nicknames. Bib overalls. Shaved heads. Tattoos and earrings. One female competitor is so androgynous and muscular that she was once arrested and handcuffed for trying to enter a ladies' room. There are stories that Bruce ("the Animal") Way eats cigars and crickets and washes them down with motor oil. When he approaches the arm-wrestling table, he turns toward his fans and blows them a kiss. A white bird flies out of his mouth.

But most arm wrestlers, like those at the Candy Store, are not flamboyant. They tend to be the kind of men, and women, who use Boraxo to get their hands clean after a hard day's work. Often they work at physically demanding jobs, and they only appreciate sports that are physically demanding, like arm wrestling. They are big-bellied, long-haul truck drivers in dark blue Levi's and cowboy boots; gym owners in muscle T shirts; car mechanics in soiled khaki uniforms; skinny blond boys who work as bag boys at Publix; and occasionally they are pretty, olive-skinned women, like Teresa Taglione, with dangling gold earrings, blow-dried hair and lots of eyeliner. Teresa, 24, is a world champión in the women's 120-lb. class. She got involved in arm wrestling through her brother Ray, 33, a stockbroker and gym owner, who is a heavy favorite in today's 155-lb. and 175-lb. classes.

First clasped hands, then the moment of truth

HELMS—DUOMO

"I come from a typical Italian family," says Teresa. "My mother wanted me to teach dancing. The first year I arm wrestled she wouldn't speak to me. Now she's proud of all my trophies."

Teresa doesn't date arm wrestlers, she says. She prefers "executive types," so she can wear silk dresses. She is the kind of girl that Robin Whiting, a 29-year-old massage therapist, would call a "frilly." Robin is a very muscular 5 ft. 2 in., 145 lbs., and she used to be a body builder. "I quit," she says, "because I couldn't smile at the judges like all the other frillies did. In arm wrestling, the judges don't determine the winner, you do."

A year ago Robin faced Teresa in an arm-wrestling match in Atlanta. Teresa's slam dislocated Robin's shoulder. "It's all in the technique," Teresa says, fluttering her lashes.

Moe Motel (his real name) is a muscular, 24-year-old pressman for a Jacksonville newspaper. Today he is a heavy favorite in the 196-lb. and 228-lb. classes and so far has dispatched all his opponents, save one, without working up a sweat. Moe's technique is to stand expressionless at the table while his opponent grunts and strains against Moe's muscular arm. When an opponent's tugging has pumped enough blood into his arm, Moe slams the challenger to the table, then puffs up his considerable chest and walks erectly around the room, acknowledging congratulations with his impassive face. "This sport means everything to me," says Moe.

It means a lot to Bob Hopkins too. Bob is the favorite in the over-

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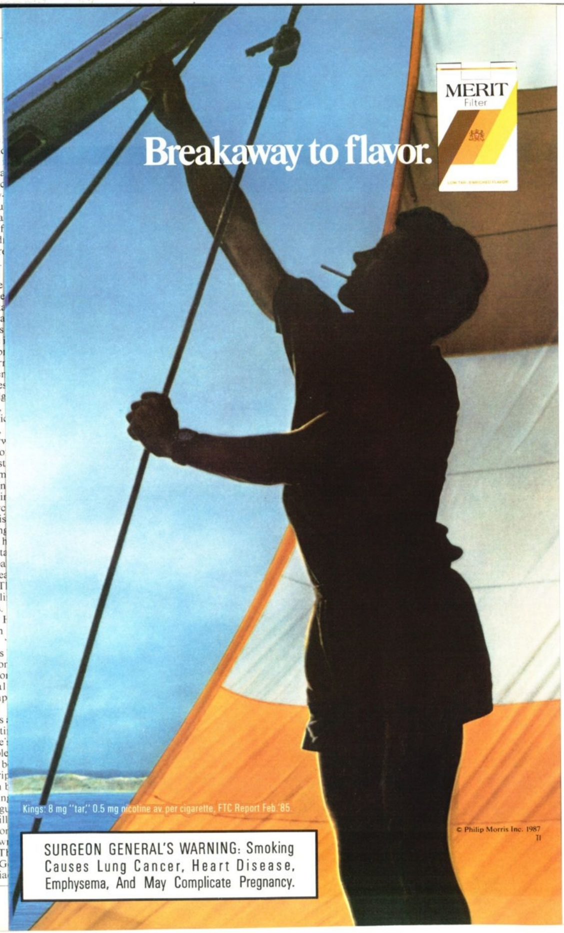

229-lb. class and is the only man to have beaten Moe. He is a plasterer who once played in the U.S.F.L. He used to weigh more than 305 lbs., which made him a bit sluggish in competition, so he dieted to a mere 275 for today's event. He has a menacing black beard that hides his face, ravaged at age 30. Bob used to have a problem with drugs and alcohol, or as he puts it, "They had a grip on me. But no more. Now I speak against drugs to kids at church groups. This is the sideline for the working guys of the world. They come to the table, take off their carpenter's belt, and for 20 seconds they're superheroes."

That description fits women like the blond girl with polio who drags her crippled legs up to the table and competes in the only sport she can. And it fits men like Joe Elmizadeh, 36, an Iranian immigrant, who was a long-jump champ in the 1974 Asian Games. Now Joe is a garage mechanic who beat all his cohorts in matches at the shop, which is why they have dragged him to today's event, his first. "He's got himself in a fix today," says his wife Adrienne.

Joe shakes his head. He lost his first match to Ray Taglione, and he can't understand it. He is more muscular than Ray, who is slightly built. It is not uncommon, however, to see a thin-armed man slam down a hulking, muscular arm in a split second. "He had some trick," says Joe. "He knew this thing with his hand." When Joe won his second match in this double-elimination event, his friends leaped out of their seats and cheered. Joe put his head down, embarrassed, and joined his wife in a far corner of the room.

Most of the arm wrestlers are mild-mannered men like Joe who are not much used to the spotlight. They are the kind of people who may have frustrations but have learned how to bury those frustrations beneath a veneer of placidity. Still, those frustrations are there, simmering, and it is arm wrestling that gives them their release. Which is why Emcee Jones is nervous. He doesn't like to see arm wrestlers get tense. He speaks into the microphone. He tells the competitors that there will be an hour break so they can go outside to watch the "Teenie Weenie Bikini" contest by the pool. Someone in the audience yells, "No!" Someone else yells, "Lock up!" A third: "Pull! Pull!" Now everyone is chanting, "Pull! Pull! Pull!" Keith smiles, shrugs and calls two competitors onstage, Ray Taglione and Joe Elmizadeh.

Joe takes off his shirt and hands it to his wife. Ray takes off his arm wrap and gives it to his sister. Joe stands at the table onstage, his elbow locked in place, and waits for Ray. Ray is stalking around the far end of the stage, talking to himself. He does not seem to notice the pinup calendar photos of the Candy Store girls on the wall in front of him. The girls are naked, in suggestive poses, and they are smiling at Ray. Suddenly, Ray barks like a rabid dog, whirls around and charges the table with wide, glassy eyes. The referee, a tall skinny man, bends over the table like a question mark. He fidgets with the competitors' hands until they are satisfactorily locked in place. Someone in the audience shouts, "Knuckles up! Knuckles up!"

A second referee, a body builder with a shaved head, is sitting bolt upright, like a naughty choirboy, at the other end of the table. The stage lights glisten off his scalp. The audience is shouting wildly now "Smoke him! Smoke him! Top roll!" Teresa has crept up to the stage. She kneels only a few feet from her brother and begins screaming encouragement to him.

Like a priest giving a blessing, the skinny referee cups both his hands over the two arm wrestlers' locked hands. "Ready!" he says. Ray and Joe tense up. "Go!" the referee says. The audience erupts into shouts and cheers—"Pull him! Pull him! Slam him! Slam him!"—as Ray Taglione, a stockbroker, and Joe Elmizadeh, a garage mechanic, pour every bit of strength in their bodies into their clasped hands. —*By Pat Jordan*

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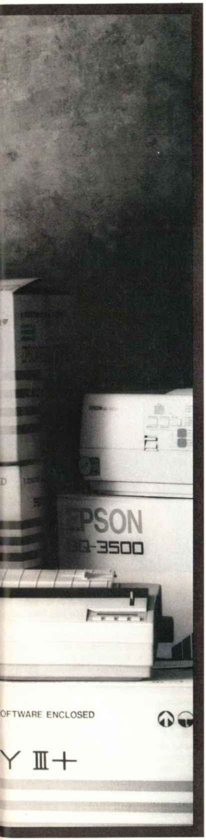
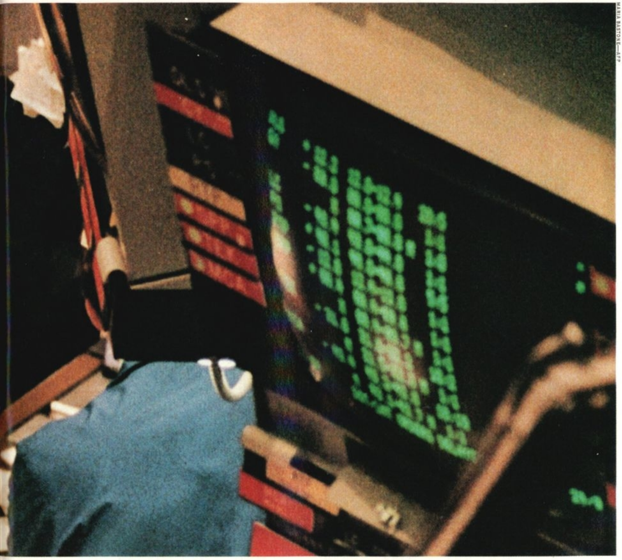


After The Fall

Decades have a way of crashing to a close during the blink of an hour. The '60s ended at Altamont, when a knife-and-death climax to a Rolling Stones concert showed that the decade of love, peace and music had trouble, even with the music. The '70s limped along with an inner-directed malaise until Jan. 20, 1981, when the U.S. hostages lifted off from Tehran just as Ronald Reagan was taking office. The '80s, as befits their high-flying adrenaline, may have dissipated a few years early, sputtering to an end during the stock market's terrifying final hour of free fall on Monday. Although Wall Street may eventually stabilize, the tenor of the times will never be the same.

What crashed was more than just the market. It was the Reagan Illusion: the idea that there could be a defense buildup and tax cuts without a price, that the country could live beyond its means indefinitely. The initial Reagan years, with their aura of tinseled optimism, had restored the nation's tattered pride and the lost sense that leadership was possible in the presidency. But he stayed a term too long. As he shouted befuddled Hooverisms over the roar of his helicopter last week or doddered precariously through his press conference, Reagan appeared embarrassingly irrelevant to a reality that he could scarcely


MARIA BASTONE—AFP

comprehend. Stripped of his ability to create economic illusions, stripped of his chance to play host to Mikhail Gorbachev, he elicited the unnerving suspicion that he was the emperor with no clothes.

Now it's the morning after, and the dream of painless prosperity has been punctured. But what a wild binge it was! Speculative fortunes built on junk bonds and stock manipulations helped paper over the cracks in an economy beset by sluggish investment and productivity. Some of the best minds of a generation marched off to make millions as market mavens, embracing the greed-and-glory smugness that suffused both Wall Street and Washington. An economy that was once based on manufacturing might and inventive genius began pursuing wealth through mergers and takeovers and the creation of new "financial instruments." Fortunes were conjured out of thin air by fresh-faced traders who created nothing more than paper—gilded castles in the sky held aloft by red suspenders.

So when the fall came, so did a few smirks, along with jokes about yuppie brokers losing their BMWs. But mainly the reaction was personal: What did the crash mean for me, my pension, my mortgage, my business, my job, my tuition bills? Most of the momentous events that splash their headlines for history can be viewed dispassionately from afar. Not a Wall Street panic, however, not even for those who don't play the market.

For many of Wall Street's whiz kids, Monday was their first taste of financial fear, their first hard lesson that what goes up can come tumbling down. For others, it produced a gnawing unease about not only their investments but also the health of their nation. Just as the crash of the space shuttle *Challenger* was a blow to America's sense of technological grace, so the crash of the market shattered its sense of financial security.

There was an odd disjuncture: the market's implosion seemed to be a frightful rendezvous with reality and, at the same time, an unhinged flight of fantasy. On the one hand, fundamental economic problems appeared to be crashing home to roost. On the other, the panic within the looking-glass world of Wall Street produced wild price fluctuations that bore little resemblance to the fundamental value of the venerable industries involved.

But the stock exchange has never pretended to measure the underlying value of American companies. Instead, it produces a collective judgment about the future profits these firms will generate. By suddenly and wildly re-evaluating its expectations about the years ahead, the market may have helped fulfill its own gloomy prophecy. —*By Walter Isaacson*

COVER STORIES

Panic Grips The Globe

A crisis spotlights Washington's failures

First came a vague foreboding, a kind of free-floating anxiety. The U.S., said worriers, could not go on forever spending more than it would tax itself to pay for, buying more overseas than it could earn from foreign sales, and borrowing more abroad than it could easily repay. There had to be a day of reckoning, and it could unhinge the whole world economy. But when might it come? What form would it take? How bad might it be? No one could say, and so the forebodings could be pushed to the back of the mind.

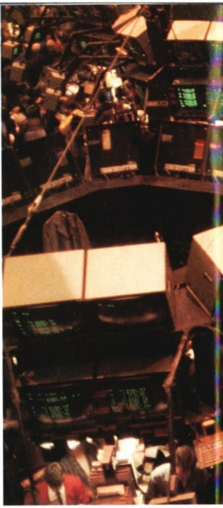
But then, slowly at first, the anxiety began to take on a shape that could be sensed if not exactly foreseen. On all the world's stock exchanges, prices had leaped up too far, too fast, to be sustained. The mood in the markets shifted from fantasy about instant wealth to nervousness about an inevitable "correction" (a wonderful euphemism). By Monday morning the concern was no longer vague but had taken on physical form—piles of papers littering brokers' desks, each representing a hastily scribbled order to sell stock; rows of numbers flashing on computer screens, bringing news of alarming price breaks in all the early-opening markets: Tokyo, Hong Kong, London, Paris, Zurich . . .

Then trading began in New York, and the unimaginable happened: a collapse on a scale never seen before—no, not even in 1929. Prices went down, down, down, swiftly wiping out an entire year's spectacular gains. "I just can't believe that this is happening," moaned one trader, as he took nonstop sell orders at Donaldson, Lufkin & Jenrette. At lunchtime, brokers across the U.S. went hungry or ate sandwiches at their desks while trying to keep phone receivers pressed to both ears. "This is going to make '29 look like a kiddie party," shouted a trader on the Los Angeles floor of the Pacific Stock Exchange.

Almost an entire nation become paralyzed with curiosity and concern. Crowds gathered to watch the electronic tickers in brokers' offices or stare at television monitors through plate-glass windows. In downtown Boston, police ordered a Fidelity Investments branch to turn off its ticker because a throng of nervous investors had spilled out onto Congress Street and was blocking traffic. George Finch, 66, a retired businessman in San Francisco, summed up the bewilderment: "I don't know what the hell is going on."

By the time the 4 p.m. closing bell rang at the New York Stock Exchange on what instantly became known as Black Monday, the Dow Jones industrial average had plunged 508 points, or an incredible 22.6%, to close for the day at 1738.74. Some $500 billion in paper value, a sum equal to the entire gross national product of France, vanished into thin air. Volume on the New York exchange topped 600 million shares, nearly doubling the all-time record. Brokers could find only one word to describe the rout, an old word long gone out of fashion but resurrected because no other would do: panic. The frenzy rose as it spread once again around the globe. On Tuesday stock prices fell by 12.2% in London, 15% in Tokyo, 6% in Paris and 6.7% in Toronto, on top of huge losses Monday.

Then, since blind panic is no more sustainable than unthinking euphoria, came a crazy whipsawing that continued virtually all week and in markets all around the world. Up, down, up, down, with trends reversing in hours, and then reversing again. And always the questions: Would the stock crisis cause a recession? Or even a global depression like the one ushered in by the 1929 Crash? What would happen to the dollar, to interest rates, to world trade? What might Ronald Reagan do to calm the markets? Could a



Black Monday on the New York Stock Exchange,

3:40.05 p.m., with just under 20 minutes of trading left and share prices plunging too rapidly for anyone to keep track of

BILL FOLEY

President who was so weakened by the Iran-*contra* affair and the impending defeat on the Bork nomination, and who was distracted by war in the Persian Gulf and his wife's cancer operation, possibly quell the financial turmoil? Did he even understand that he faced a first-class crisis of confidence in his leadership?

At first the President gave no sign that he did. He spoke only in comments shouted to reporters over the roar of helicopter rotors on the White House lawn and in brief formal remarks issued through his spokesman, Marlin Fitzwater. On Black Monday, he blithely attributed the crash to "some people grabbing profits" accumulated during the market's long rise. In a statement after the close of trading, he said that "the underlying economy remains sound"—unwittingly drawing another parallel to 1929, when Herbert Hoover said almost exactly the same thing. On Wednesday, Reagan remarked that the midweek rally indicated the Monday collapse had been "some kind of a correction"—a statement that would have been reassuring only if he had intended it ironically, as he obviously had not. Some critics began speaking of the President in tones of contempt. Said a Wall Street money manager during the midst of the crash: "You sell and get what you can and never again listen to Ronald Reagan." M.I.T. Professor Robert Solow, who was awarded the Nobel Prize for Economics last week, took the occasion to criticize Reagan's long, obstinate resistance to tax increases thought necessary by many to trim the budget deficit and thus restore confidence. The President, said Solow, "is holding the Congress back from slow access of intelligence."

By Thursday night, however, Reagan at last showed that he recognized the seriousness of the situation—and the need for action. "We shouldn't assume that the stock market's excess volatility is over," he asserted at a White House press conference, and he acknowledged that public fear spread by those gyrations "could possibly bring about a recession." More important, he announced that he was summoning the leaders of Congress to a bipartisan deficit-cutting conference at which, through his top aides, he was "putting everything on the table with the exception of Social Security, with no other

preconditions." Including a tax increase? Though he could not quite bring himself to pronounce those words, Reagan clearly indicated that, well, yes, he would at least discuss the subject. Reminded again and again by reporters of his many previous pledges to veto anything resembling a tax increase, he refused to repeat any such pledge; he merely said both spending and taxes should be kept "as low as possible."

It was, however, anything but an inspiring performance. The President repeatedly stumbled and seemed unsure of just what he wanted to say. Several times he slipped into well-worn denunciations of congressional Democrats before remembering that this time he was supposed to sound conciliatory. In his Saturday radio speech, Reagan once again called on Democrats to "remember that lower taxes mean higher growth," even while acknowledging that "all sides must contribute" to a budget-cutting package. The net impression was that in countenancing discussion of a tax increase he was doing something he felt he must, without any conviction.

The impact of the President's words was hard to gauge. Exchanges in Asia and Europe suffered additional heavy losses Friday, but that might have been more a response to a bad Thursday on Wall Street. Despite a lukewarm reaction in the New York financial community to the President's statements, prices on the Big Board steadied, perhaps from exhaustion. The Dow average eked out a .33 gain to close the week at 1950.76. Two bits of news helped: the Consumer Price Index rose at an annual rate of only 2.1% in September, less than half the 5.8% pace in August; the GNP grew at an annual rate of 3.8%, after adjustment for inflation, in the third quarter, up from 2.5% in the second quarter. Those figures seemed to indicate that the American economy, if not exactly sound in its fundamentals, was at least not deteriorating as drastically as the Black Monday stock-price collapse might have led an unsophisticated observer to believe.

Nonetheless, the week as a whole will go down as the worst in financial history. The Dow's Black Monday plunge of 22.6% was almost double the record 12.8% fall on Oct. 28, 1929. Despite a spirited rally on Tuesday and Wednesday, the Dow was still down an unprecedented 295.98 points, or 13.2%, for the week. That immediately eclipsed the record 235.48-point decline the market had suffered the previous week. From its peak of 2722 in August to its Friday close, the average has fallen 28.3%, burning up an estimated $870 billion in equity values. Volume for the week was inconceivably greater than ever before, totaling 2.3 billion shares on the Big Board; the four heaviest trading days in New York exchange history all occurred last week. The turnover strained the exchange's computer network to the limit, and the Big Board decided to knock off trading two hours early on Friday and this Monday and Tuesday to allow exhausted brokers time to catch up on their paperwork.

At best, the President may have bought some time for the White House and Congress to come up with a program to convince investors that something worthwhile will be done to bring budget and trade deficits under control. Probably not much time, either. Wildly gyrating markets are better than those that plunge straight down, but they are hard on the nerves of stockholders who have already proved they are ready to jump at the first sign of trouble. The continued drop on the foreign exchanges Friday cannot be brushed off. If the wild week proved anything, it was that in an era when the U.S. is dependent on foreign goods and capital, no exchange is an island. Price breaks overseas can touch off panic in the U.S., which can then hammer prices down further abroad; that, in fact, is roughly what happened Monday and Tuesday.

Moreover, even if prices stabilize—a gargantuan if, given the extreme jumpiness of the markets—the bust that has already occurred darkens prospects for business. Even in an economy the size of the U.S.'s, the nearly $385 billion in asset values that vanished last week alone is a sum large enough to have a strong impact. Not all those losses are theoretical; for many people who sold on Monday, the damage is painfully real. And investors who sat tight and saw the value of their stocks recover a bit at midweek have had an unforgettable demonstration that they cannot count on

Baker: "Wait and See"

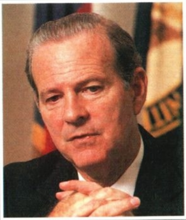
A seven-year veteran of the Reagan Administration, Treasury Secretary James Baker is no stranger to crisis. Rarely, however, has he been placed so squarely in the vortex. On Friday, Baker met over breakfast in the Treasury Secretary's ornate dining room with TIME's *international economics correspondent, Christopher Redman. For 90 minutes they discussed the week's tumultuous events. Excerpts from the interview:*

Q. There have been accusations that your remarks about interest rates were ill-timed and helped trigger the Monday crash. Is that so?

A. What triggered it was not my remarks but a front-page story in one of our major newspapers. It quoted an unnamed Government official, not me, and drew inaccurate conclusions from my remarks in a way that could not but contribute to market nervousness.

Q. What needs to be done to prevent this crash from leading to a depression?

A. We need to continue to work hard to coordinate our economic policies in the manner envisaged by the Plaza and Louvre [international monetary] accords. And each country needs to do its utmost to take actions that are sometimes very difficult politically. We must recognize that more and more we are an interdependent world.



MICHAEL EVANS

The Secretary: squarely in the vortex of events

Q. Can we avoid a recession?

A. I think we can with the right policies. And we're pursuing the right policies in the United States by moving to negotiate a budget-deficit-reduction package with the Congress and by adopting an easier monetary policy stance. But it's important that monetary authorities around the world recognize that there's been a large loss of wealth and that consideration should be given to an easing of monetary policy.

Q. You didn't mention protectionism.

A. Trade is very important, and fear of protectionism was one thing that had equity markets unsettled. The Administration is totally committed to free trade, and the President has said he will veto protectionist trade bills now on the Hill.

Q. There's clearly going to be some negative impact from the crash. What's the damage, and how can it be limited?

eventually being as rich in reality as they once looked on paper.

To be sure, hardly anyone expects a rerun of the Great Depression that followed the 1929 Crash. Main reasons: the economy has developed many safeguards, and the Government, if it cannot yet be trusted to resolve the nation's fundamental financial problems, at least knows enough to avoid making the situation drastically worse. The banking system collapsed in the wake of the 1929 debacle, but it is much sounder today, shored up by federal deposit insurance, among other things. Says James Wilcox, an economist at the University of California, Berkeley: "In the 1930s when things looked bad, people ran from the banks out of fear. In 1987 people run to the banks to put their money in, because this time the banks are among the safest things around."


WILKINS—AFP

Reagan pointing out the market's (momentary) direction

Thursday night, said an aide, "he almost blew it."

The Federal Reserve Board, in hindsight, is widely considered to have played a role in converting the 1929 Crash into the 1930s Depression by allowing the U.S. supply of money and credit to shrink substantially at the worst possible time. Last week the Fed took exactly the opposite tack. Chairman Alan Greenspan on Monday was denounced by some critics for having inadvertently helped trigger the stock-market break by pushing up interest rates in early September. But on Tuesday morning he became something of an instant hero by reversing policy: just before the markets opened, he announced that the Federal Reserve, "consistent with its responsibilities as a central bank," would make as much money available as might be needed—for example, to banks that might be hurt by suddenly uncollectible loans to stockbrokers. Greenspan seemed to be as good as his word; by week's end the Fed was apparently pumping enough money into banks to bring interest rates down again slightly. Led by Citicorp, the major U.S. banks dropped the benchmark prime rate that they charge corporate customers from 9.25% to 9%. The move came only two weeks after the banks had boosted the prime from 8.75% to 9.25%.

But if no depression is in the cards, the market crack could cause a recession all by itself. Economists last week were quoting odds like so many Las Vegas bookies. Some guessed the chances of a recession had gone from 1 in 4 to 1 in 2, others from 15% to 35%, but few doubted that the odds had increased. If a recession does not come, most agreed, the economy probably is in for at least a slowdown that might knock a percentage point or two off its growth rate.

Frank Korth, senior vice president of Shearson Lehman, explains the mechanism by which market cracks get translated into slowdowns or recessions: "If you lose $4,000 in the stock market, you don't go out and spend $1,200 on a new color TV or $4,000 on a new motorboat. As a result, the man on the street whose job is in the boat plant is out of a job because there is no market for his company's product. Boatbuilders don't want to build inventory, so they close down their plants. Everybody loses: the plant workers, the suppliers, the corner grocer, the shoe store."

This is, of course, a highly simplified scheme, and there is nothing inevitable

A. We don't know yet, and we won't know until we get a better readout on some of the credit problems that might spew out of this. Although we don't know of any, there may be problems in terms of ripple effects. So we have to wait and see. But we're doing what we can. I think the policy moves we've made are the right ones. We're in close contact with the exchanges. And we've just had some good numbers: growth in the third quarter came in at 3.8%, much stronger than we anticipated. That's good because we're going to have some adverse effects from this market decline and we'd rather have that coming off a high GNP number.

Q. Do you expect America's economic partners to make further efforts to ensure that the recovery continues?

A. We've all got to do what we can to bring our economies into better balance.

Q. Does that mean you still want to see faster growth in West Germany?

A. We want to see deficit countries—to wit, the United States—move on fiscal deficits and fight protectionism. And we'd like to see surplus countries generating as much growth as possible, consistent with maintaining the gains the world has made against inflation.

Q. As part of the U.S. contribution, the President said he will consider tax revenues in a deficit-reduction package.

A. Right.

Q. He also said they should not harm the economy. What form could they take?

A. As the President said, we're not going to negotiate in public by saying what is or is not that kind of tax.

Q. What was the President's objective at his news conference?

A. It was important for the President to be seen to be in charge, to be leading and taking action. He also needed not to be seen as another Herbert Hoover. He couldn't say, "Don't worry, everything's O.K." But at the same time he needed to be reassuring, and that's not an easy line to walk.

Q. Why the need for budget compromise?

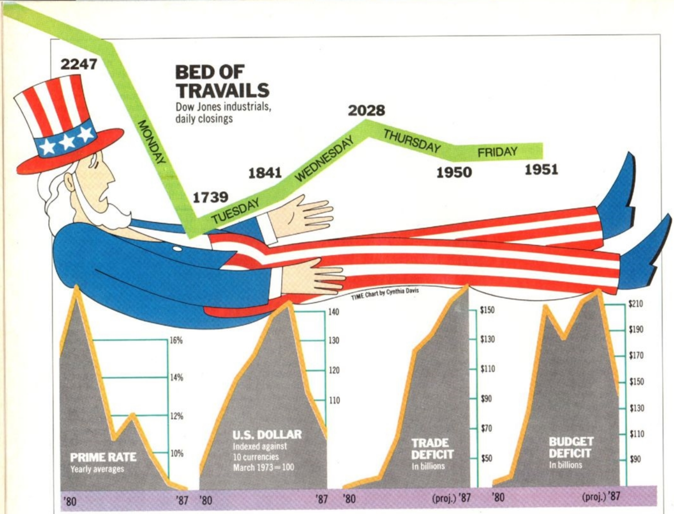
A. The major plus to a negotiated deal is that the markets would see the two branches of Government cooperating to solve the problems.

Q. What's the time frame for reaching a deficit package?

A. We have to do this not in the months ahead but in the days ahead.

Q. Can any good come from this turmoil?

A. We probably wouldn't be doing this [negotiating with Congress] but for the events of the past week. It is clear that they were the catalyst that was needed to bring about face-to-face discussions on debt reductions.



about it; it could be averted by Government action that would restore confidence. But what kind of action? An answer must begin with an analysis of what triggered the market crash.

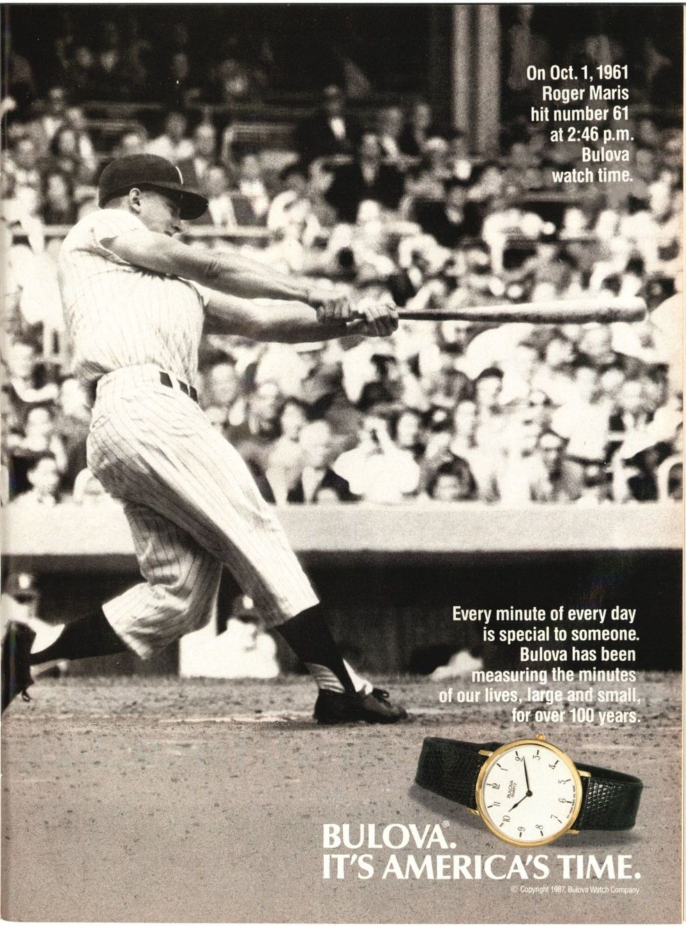
Superficially, the bust might seem, to put it bluntly, insane. By no rational calculation could the asset value and earning power of American corporations be 22.6% less on Monday night than they had been the previous Friday. But that statement assumes that their values on Friday were realistic, and in hindsight there is widespread agreement that they were not. In other words, the crash to some extent really was—oh, all right—a correction, though one on a scale to make that word seem ludicrously inadequate.

Says Korth of Shearson Lehman: "The market should not have reached 2700 [on the Dow Jones average] in the first place. We probably should have been trading around 1900 or 2100; maybe 2000 would have been the right number based on interest rates, corporate earnings and other fundamentals. We were 700 points ahead on sheer greed." As early as August, when the American bull market celebrated its fifth birthday, some investing pros were noting apprehensively that stock prices were getting out of line with expected corporate earnings, and dividend yields had fallen well below the interest return on bonds, making the fixed-income securities potentially a better investment. But the general feeling then was that the Dow might go as high as 3000, on pure momentum if nothing else, so why not stick around for the end of the ride? A similar psychology ruled overseas, according to Nils Lundgren, chief economist of Sweden's PKbanken. Says he: "The market was really overspeculated, with people saying to themselves, 'I won't get out now, but as soon as stocks start to fall, I will sell.' When you have that mentality operating, you are ready for a big fall."

When markets get into such a state, almost anything can start a smashup. In the event, last week's explosion did not lack for triggers. Interest rates were pushing higher: the yield on U.S. Treasury bonds rocketed briefly above 10%. That seemed likely to pull money out of stocks into the bond market. In fact, something of the sort seems to have happened. While the stock market suffered through its collapse Monday, the bond market began a brisk rally, presumably propelled by money fleeing the stock exchanges and looking for a safe haven. The biggest immediate blow of all was a report two weeks ago showing that the monthly U.S. trade deficit in August had declined only slightly, to $15.7 billion. Investors who had been hoping for a large reduction took that as a sign that U.S. finances were out of control and that the Reagan Administration did not know how to fix them. They began dumping stocks.

Moneymen in the U.S. and Europe found a personal villain: U.S. Secretary of the Treasury James Baker. Some came close to implying that he turned a serious stock-price decline into an all-out crash single-handedly. That would be a wild exaggeration, but he surely did not help.

What Baker did was get into a complicated but unnerving spat with West German financial authorities, who two weeks ago permitted the fourth rise in German interest rates in three months. What was so bad about that? Washington would like West Germany, Japan and other major countries to reduce interest rates for two reasons: 1) to avoid competing against the U.S. for international capital needed to cover the federal budget deficit; 2) to stimulate their domestic economies so they will import more U.S. products and not be so dependent on export sales that swell the American trade deficit. Baker might have been justified in criticizing the German interest-rate boost;


On Oct. 1, 1961
Roger Maris
hit number 61
at 2:46 p.m.
Bulova
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BUCKLE UP FOR SAFETY.

he was not the only moneyman to consider it unnecessary as well as unwise. The boost was supposed to combat inflation, but West Germany is a country with almost no inflation.

Baker, however, went much further than merely criticizing the Germans. In a series of statements beginning Thursday, Oct. 15, and continuing through a TV interview on Sunday, he repeatedly asserted that the U.S. would not accept the German interest-rate boost quietly. Moneymen immediately read his comments to mean that Washington would no longer abide by the February Louvre accord under which the U.S., West Germany, Japan and four other nations try to keep the values of their currencies within a narrow trading range. Indeed, the New York *Times* quoted an unnamed "senior Administration official" as announcing an "abrupt shift in policy," implying the U.S. would seek to retaliate against the Germans not just by letting the dollar fall but by actively driving it down. For investors around the world, many of whom assumed the unnamed official must have been Baker, that raised horrifying specters: chaos in the currency markets and a breakdown of the slender degree of international financial cooperation achieved under the Louvre agreement (named after the Paris museum, which also houses the French Finance Ministry offices in which the accord was negotiated). U.S. Economist Pierre Rinfret accuses Baker of "initiating economic warfare against the Germans and then threatening to bomb his own currency."

Treasury sources vehemently deny that Baker intended any such thing. All he wanted to say, they insist, was that Washington would not let the West Germans push the U.S. into raising its own interest rates; they point out that his statements never even mentioned the dollar specifically. And the unnamed senior official? It was not Baker, Treasury people insist; in fact, Baker would like to get his hands on whoever it was. Perhaps, but such statements cannot inspire confidence in the degree of policy coordination within the Reagan Administration.

Ironically, Baker in a sense won his campaign. Flying to Europe for a scheduled visit Monday, he persuaded the West Germans to roll back the interest-rate increase he had assailed, and they together specifically reaffirmed the Louvre agreement. But it was much too late to calm the unrest Baker's previous statements had intensified. Well before he patched things up with the Germans, selling on the world's stock exchanges had accelerated into an all-out crash.

One factor behind the speed of the market's descent was the almost complete computerization of the New York exchange and other markets. There is immense dispute, even days after the fact, as to what part computers that make trades semiautomatically played in touching off the gigantic volume of sell orders. Taking

Greenspan's Big Test

If any one man can decide how last week's market turmoil will affect the U.S. economy, and indeed that of the entire world, he is Alan Greenspan, 61. As chairman of the Federal Reserve Board, the soft-spoken economic forecaster is the ultimate arbiter of the nation's credit supply and thus of the interest rates at which money is lent throughout the U.S. banking system. On the job less than three months, Greenspan is suddenly being forced to make rapid and delicate decisions to prevent the market crash from turning into a mushrooming financial collapse and to stave off a steep recession. Says Charles Schultze, who was chairman of President Jimmy Carter's Council of Economic Advisers: "Greenspan is in a very difficult period in which he is truly being tested."

Following Black Monday, Greenspan moved quickly to avert further disaster. The day after the market's plunge, the new Fed chairman cut short a speaking trip to Dallas and hurried back to his ornate second-floor office in Washington's Eccles Building. He had already issued a terse announcement that the nation's central bank would "serve as a source of liquidity to support the economic and financial system." That was a signal that banks would have no difficulty obtaining additional credit as needed to provide for the huge losses sustained by shell-shocked brokerages. Greenspan's announcement produced an immediate decline in interest rates, as the banking system moved in effect to replace some of the $500 billion in stock values that vanished on Black Monday.

Greenspan also began moving behind the scenes to bolster the Reagan Administration's political response to the crash. Within an hour of Treasury Secretary James Baker's return from West Germany to Washington on Tuesday, Greenspan was huddling with him to plan the Administration's response to the market crash. Later that day the Fed chairman helped persuade Reagan to offer Congress a summit meeting to negotiate a federal-deficit reduction program.

People like Lyle Gramley, a former Federal Reserve governor who is now chief economist for the Mortgage Bankers Association, praised the Fed chairman for his decisive actions. But critics like Paul Craig Roberts of Washington's Center for Strategic and International Studies charge that Greenspan also helped cause last week's market disaster. They note that back on Sept. 4, Greenspan's first important move as Fed chief was to push successfully for a hike in the bellwether discount rate, the interest that the Fed charges on funds lent to financial institutions, from 5½% to 6%. It was the first such increase in nearly 3½ years.

Greenspan justified the rate hike as a move against potential inflationary pressures, which indeed it was. But for investors, any increase in interest rates makes stocks less attractive, since higher returns become available for bonds, Treasury bills and other fixed-income securities. During the two trading days after the Fed announced its decision, the Dow Jones industrial average dropped 54 points. Admits Gramley: "A common problem is the markets do not understand Alan Greenspan's statements. He needed to express [the Fed's decision] more clearly."


CYNTHIA JOHNSON
The chairman after a huddle at Treasury

Greenspan's task is especially difficult because he follows Paul Volcker, who left the Fed last August after eight years as chairman. Volcker was legendary for his ability to inspire confidence at home and abroad. Greenspan's experience is also grounds for reassurance. In 2½ years as Gerald Ford's chief economic adviser, he had some success in combatting inflation, then the nation's main economic woe. But, unfortunately, the progress was temporary, and inflation was not decisively licked until a severe credit squeeze was imposed in the early 1980s by Volcker and the Fed.

KURITA—GAMMA/LIAISON

Frenzy on the floor of the Tokyo Stock Exchange as prices dropped on Tuesday

no chances, however, the Big Board after the Monday debacle instituted restrictions on so-called program trades of large portfolios of stock carried out by computer, in order to damp down price swings.

In a broader sense, computers unquestionably had an all-important role. They enable the exchanges to execute trades swiftly, in volume that would have been inconceivable a few years ago. So at times of market excitement, the volume that would once have been stretched over a week or so gets squeezed into a day. When the orders are predominantly on one side, prices run up or down violently.

But never so violently as on Black Monday. Tickers and news reports flashed the story of huge price declines on heavy volume. With each sale, more investors became convinced that a collapse had begun and they had better get out while they still could. Mutual-fund managers tried to hold on but could not; they had to dump stock to get cash to pay off investors who clamored to redeem their fund shares. Margin calls to investors who had bought stock on credit aggravated the frenzy. Some could not put up additional collateral and were sold out.

Why, then, did the rout give way to a rally? Traditionally, that happens after every so-called selling climax (even in 1929), because most investors who were thinking of selling have been cleaned out in one grand sweep and buyers start looking for newly cheap shares. The rally in the middle of last week was given particularly powerful support by some 200 major corporations that started buying up their own stock at bargain prices, in part to keep it out of the hands of would-be raiders. The crash put at least a temporary damper on mergers and acquisitions anyway. Several deals fell through because the bids made for the target companies suddenly looked unrealistically high after the general decline in stock prices.

HABANS—SYGMA

Newsstand headlines the same day tell what happened in "the City," London's Wall Street

Pretty much the same thing in Paris, Frankfurt, Amsterdam, Zurich, Madrid . . .

But it is anyone's guess whether the small degree of stability so painfully achieved on Friday—volume dwindled as the Dow average stood almost still—will hold even for days or hours. Alan Meltzer, professor of political economy at Pittsburgh's Carnegie-Mellon University, thinks the "markets will remain volatile because there are still too many unanswered questions."

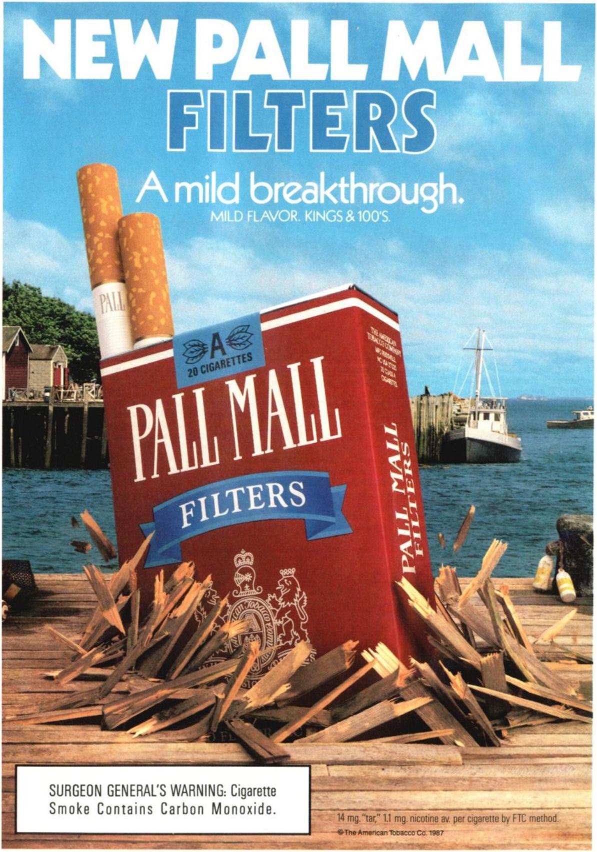
The most fundamental questions, economists agree with the closest approach to unanimity they ever achieve, are: How long will the U.S. try to live it up on borrowed money? And can it summon the will to start the painful readjustment necessary to kick the habit—a readjustment that grows more painful the longer it is put off?

The problem is hideously complicated in detail but simple enough in outline. Ever since the giant tax cuts of 1981, the U.S. has been running deficits on a scale never seen before. True, Reagan announced at his press conference that the deficit in fiscal 1987, which ended on Sept. 30, dropped to $148 billion, from $221 billion the prior fiscal year. But the new figure is still far too high, and it is likely to rise again soon; much of the 1987 reduction was due to one-shot effects of the tax-reform law. Concurrently, the U.S. has swung from a surplus of exports over imports of $3 billion as recently as 1975 to a trade deficit of $156 billion last year.

One result is that America has run up a foreign debt of about $250 billion. Economists across a broad spectrum of ideological positions warn almost with one voice that this situation is precarious in the extreme. Foreigners will not continue forever to finance American profligacy, and the stock-market crash was a relatively mild foretaste of what could happen if they pull their money out. The nation would then face a grim choice of financing the deficit by ruinous printing-press inflation or a sudden, brutal cutback in spending that might trigger a real economic bust.

No wonder, then, that stock investors have been nervous. Whatever the precise mix of emotions and events that triggered last week's collapse—and to establish that mix would require probing into millions of minds around the world—its root cause was a dim but accurate perception that U.S. prosperity was not sustainable with present policy. And with Congress and the President perpetually wrangling over the most modest proposals to reduce the budget deficit, they could see no sign that policy was about to change.

In truth, even with the most brilliant policy, the passage to a sounder prosperity is likely to be tricky, dangerous and painful. Lowering the trade deficit will take years, and will probably require a cut in American consumption—meaning, in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other words, at least a temporary reduction in the standard of living. Many economists think the dollar will have to fall further too, reluctant as both U.S. and foreign moneymen are to see that happen. The reluctance is understandable. Unless a decline is carefully managed, it will raise two dangers: a renewal of inflation and a panic flight of foreign capital from the U.S. (since foreigners would not be eager to hold dollar-denominated investments that shrank in value against their own currencies).

But there is an impressive consensus, in the U.S. and abroad, on how to begin to correct the imbalances in the American economy. The President and the Democratic-controlled Congress must agree, right away, on a package of measures that hold some real promise of reducing the budget deficit steadily and substantially. Certainly these must include painful spending cuts. But they must also include tax increases, much as Reagan hates the thought. Not because they are any panacea; indeed they carry a serious risk. Higher taxes might reduce consumer spending just when a recession is beginning, and deepen the slump. But no significant budget cut is possible without at least some sort of modest tax increase, and no progress toward solving the nation's fundamental economic problems is possible without a real deficit reduction.

That was the theme, implicit or explicit, of comments around the world last week. Foreign government and financial leaders have an all-important stake in U.S. economic policy. The worldwide market crack is already hurting their economies; for example, it has delayed European programs to privatize industry by selling chunks of government-owned companies to individual investors. An American recession, should that be the result of a continued stock slump, could quickly travel abroad.

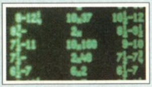
Watching the tape through the window of a brokerage in Washington
For the week, a crazy whipsaw: up, down, up, down—in hours.

French President François Mitterrand, speaking at a financial forum Thursday, complained about a "world that constantly moves the carpet under your feet, pulling it out and threatening to trip you up." The market bust, he said, "is the disorder of a non-system. There is no system. It has been broken." Others left no doubt about who must bear responsibility for fixing it. Says a senior Canadian government economist: "Everyone, all around the world, has been keeping an eye on the U.S. economy and wondering how long it could continue to survive without dealing with things like its trade imbalance and its huge federal deficit. When people became convinced that the U.S. lacked the will (we know it has the ability) to deal with these problems, they lost confidence in the U.S. market." Guido Carli, former head of the Bank of Italy, is specific about what needs to be done: "The only way out is to reduce the U.S. deficit. Otherwise there is a risk of recession."

Does Reagan now understand the necessity? Just before Black Monday, Treasury Secretary Baker in a TV interview restated the President's opposition to any sort of tax boost. But he and other insiders were already monitoring the stock market apprehensively. The previous Friday, White House Chief of Staff Howard Baker had pulled together an informal group consisting of himself, the Treasury Secretary, Council of Economic Advisers Chairman Beryl Sprinkel, Federal Reserve Chairman Greenspan and White House Aide Kenneth Duberstein. They

Are Computers to Blame?

If big investors are determined to panic, computers can sure help. A few keystrokes into a broker's desktop computer can trigger the sale of thousands of shares of, say, 500 different companies. Such "program trades" may have played a role in making Black Monday the worst day in Wall Street history. As one Chicago broker joked, the difference between 1929 and 1987 is that last week, it was the computers that jumped out the windows.



But how much are the computers to blame? That issue stirs a great deal of confusion. The term program trading is misleading: it derives not from the fact that trades are executed by computer programs but that they involve the systematic sale of portfolios of stocks as if they were one stock. The first program trades, executed in the early 1970s, did not involve computers.

Program trading came into its own in 1982, with the advent of stock-index futures. These enable investors to make a bet on which way the entire market is going. Index futures, used with program trades in the stocks on the index, open up a variety of opportunities. One of the most popular takes advantage of momentary differences between the price of a futures contract and of the stocks themselves. When this spread is sufficiently wide, a trader can lock in a profit at no risk by, say, buying the futures and selling the underlying stocks. This practice, called index arbitrage, has been blamed for the sharply increased volatility of the market, though the point has never been conclusively proved. Indeed, some experts believe index arbitrage actually reduces volatility by helping the market reverse course when it goes too far in one direction.

But most arbitragers were on the sidelines last Monday because the computers that track prices had fallen hopelessly behind. The real culprit was a variation of program trading called portfolio insurance. This is a defensive strategy designed to protect stock portfolios against market downturns. Rather than sell stocks as their prices are falling, portfolio insurers sell stock-index futures. If the decline persists, the futures can be repurchased at a lower level, yielding a substantial profit that will offset some of the loss sustained on the stocks. But traders who buy the futures hedge their positions by making computer-aided sales of the underlying stocks, driving the market down further. If computers did help accelerate the Black Monday slide, they were not responsible for it. As an IBM executive once said, "Computers don't kill stock markets. People do."

Wall Street crowd on Tuesday: wild gyrations are better than relentless declines, but still very hard on the nerves

met with the President after the market had closed with a then record loss of 108.36 points (shortly to be vastly eclipsed). Their message: basic economic indicators were good, but the markets were very nervous.

On Monday, Howard Baker was on the telephone almost all day long, keeping in touch with old colleagues on Capitol Hill, where he had once been Republican Senate leader, and phoning people on Wall Street, including New York Stock Exchange Chairman John Phelan, to get market reports. At 3:40 p.m., 20 minutes before the close of trading, the chief of staff and Duberstein called at the Oval Office to give Reagan a market status report. But prices were tumbling too rapidly for anyone to keep track of them. Reagan, as his later statements indicated, simply did not know what to make of the crash.

The decisive meeting occurred Tuesday after the market close. James Baker, by then back in his Treasury office after having cut short his trip to Europe, first called in Howard Baker, Greenspan and Sprinkel to coordinate what they would tell the President. Then, joined by Duberstein, they went upstairs in the White House to the brightly colored West Sitting Room, which the Reagans use as a living room. James Baker opened by telling Reagan that the world seemed to be looking for some movement on the President's part, and the quickest way he could display leadership was by reaching a compromise with Congress on reducing the budget deficit. Everyone knew that would have to include a tax increase.

Greenspan, who had been an informal economic adviser to Reagan before the President chose him to head the Federal Reserve, voiced a somewhat perverse but effective argument: in effect, the only way to keep taxes low was to agree to raise them a bit. If there was no budget compromise with Congress, he said, the financial markets might continue to weaken and the economy might take a real turn for the worse. That, he continued, might give the Democrats enough political clout to shove through a big increase severely trimming back Reagan's cherished tax cuts, either by ramming one through over the President's veto or by winning the 1988 election and enacting a stiff boost after Reagan left office. The President showed great reluctance to accept the advice that he should compromise on a modest boost now. But, says one participant, eventually the "President bought the [Greenspan] argument that if the economy goes down the tubes you lose the whole thing, the whole legacy."

Even so, the two Bakers had to argue further on Thursday to cement Reagan's agreement to state in his press conference that night that he would put everything on the table in budget discussions with congressional leaders. But as the President began speaking, advisers who had coached him were concerned that he would take back that pledge almost immediately after making it. Their fear was that once Reagan got past his prepared statement and started answering reporters' questions, he would go on automatic pilot and repeat all his standard denunciations of taxes. In fact, Reagan once or twice started to do exactly that but caught himself before going too far. Said an adviser the next day: "He almost blew it. He came very close."

But he did not blow it, and the budget negotiations were set to begin early this week. It should not take long to find out whether some agreement can be reached. Even if a renewed market decline does not force a quick resolution—and one very well might—the talks will be racing a deadline of sorts. If a budget compromise is not worked out and enacted by Nov. 20, some $23 billion of automatic spending cuts go into effect under a modified version of the Gramm-Rudman Act. They would slash away with idiot impartiality at defense and social spending, at good programs and bad. And that would just about end any chance that Washington would give the stock markets the signal they yearn for.

What if the negotiations break down and the market gets the opposite signal: that the U.S. is unable or unwilling even to start working out some long-range solution to its gargantuan budget and trade deficits? As last week's wild price whipsawing demonstrated, no one can predict stock prices and volume for even a few hours. But if the U.S. continues to float on a sea of red ink and foreign debt—well then, many financial experts suggest, sooner or later the markets can expect the *real* crash. How it could be much worse than Black Monday is as difficult to imagine as was Black Monday itself just days before. But the world had better hope it never finds out what that ultimate bust would be like. —***By George J. Church.***

Reported by Rosemary Byrnes and Barrett Seaman/Washington and Frederick Ungeheuer/New York, with other bureaus

A Shock Felt Round the World

Stock markets plummet and climb between "hell and heaven"

Investors all over the globe were nervous even before markets opened on the historic day that came to be Black Monday, Oct. 19, 1987. On the previous Friday, the Dow Jones industrial average had suffered a record one-day decline of 108.36 points, to 2246.73. The sense of imminent foreboding was evident as far away as Australia, where the Monday-morning sun rises over the Pacific while it is still Sunday afternoon in New York City.

MONDAY, OCTOBER 19

MELBOURNE, 10 A.M.

One of the first markets to open after Friday's Wall Street scare quickly signals the shocks to come. On a catwalk above the gathering gloom on the trading floor, neatly uniformed "chalkies" sketch stock prices on a green board. All are falling.

TOKYO, 9 A.M.

Uncertainty prevails among the 2,000 dealers in the brand-new Kabutocho exchange building as they try to make sense of Friday's record loss in New York. What will happen on Wall Street later today? The Nikkei Dow Jones index of 225 traded stocks falls from 26,366 to 25,746.

HONG KONG, 10 A.M.

Traders in red waistcoats on the Hong Kong Stock Exchange floor trade in a rush as the Hang Seng index of 30 stocks opens at 3783. In 40 minutes, it drops 133 points. The index ends the day down 421, the worst point loss ever. Officials close the exchange for four days.

LONDON, 8 A.M.

A backlog of sell orders has accumulated from Friday, when damage from one of Britain's worst windstorms kept many dealers home. That day's selling gusts from New York make things even worse. Says Christopher Dark, a manager of Salomon Brothers' London branch: "I keep thinking about the little man with the sign saying THE END OF THE WORLD IS NIGH."

NEW YORK, 9 A.M.

On the 34th-floor trading room of the Donaldson, Lufkin & Jenrette (DLJ) brokerage firm on Wall Street, arriving traders are startled by the presence of uniformed security guards. Corporate officials, deluged by cabled sell orders, know a rough day is ahead: the guards are there to protect traders from any violent clients. The New York Stock Exchange is not yet open, but already some of the firm's brokers are perspiring at their telephone consoles, staring at banked arrays of 200 blinking buttons. Tension mounts as Dudley Eppel, a managing director, delivers a grim pep talk: "Well, here we go. Let's keep our cool and maybe we'll all get through this thing alive. Let's go get 'em!"

NEW YORK, 9:30 A.M.

The Big Board opens. At the bell, the Dow is already off 67 points. In the next 30 minutes, 50 million shares are sold. At DLJ two blocks away, glowing green figures on computer consoles trace the market's fall. "We're going underwater!" shouts Trader John Sesko as he pops Tic Tac candies into his dry mouth. "55,000 Pepsis to sell!" barks one trader. "60,000 GM to sell!" yells another. The cries do not stop. "Boston wants to sell 30,000 J.P. Morgan!" Long before lunchtime, a trader shouts, "Hamburger to go! Hamburger to go in six figures!" He wants to peddle 100,000 shares of McDonald's.

BILL FOLEY

NEW YORK, 10:30 A.M.

Already 140 million shares have been traded—normally a calm day's average volume. The Dow has sunk another 34 points, down a total of 101, to 2145.

LOS ANGELES, 7:30 A.M.

Physician Richard Weiss listens to radio reports of the developing fiasco as he drives to work. Weiss pulls off the freeway and phones his broker with an order to sell his entire portfolio. The broker ticks off plummeting quotes. "There's Disney going 78, 70, 68. We're making history here." Says Weiss: "We're doing it with my money." He loses $100,000.

NEW YORK, 11 A.M.

The mood turns surly at DLJ. "Get off my butt!" yells a sweating trader to another. As one man breaks into a stream of curses, Managing Director Eppel jumps to his feet. "Now stop it! Just calm down!" The Dow is down 201 points in 1½ hours.

PERRY—GAMMA/LIAISON

FRANKFURT, 4 P.M.

Treasury Secretary James Baker meets secretly with West German Finance Minister Gerhard Stoltenberg and Bundesbank President Karl Otto Pöhl. Out of the session comes a statement pledging cooperation in stabilizing currencies. Earlier in the day, Bonn's central bank takes steps to ease interest rates.

NEW YORK, 11:45 A.M.

There is a glimmer of hope. After dropping 201 points, the Dow has gained 95 in the past 30 minutes. It now stands at 2130. Is a turnabout in the works?

FOLEY

NEW YORK, NOON

The Dow, now falling, is at 2103. Long lines of people form to take turns in the N.Y.S.E.'s spectator gallery. Heather Walker, 27, wants to "tell my grandchildren I was there." But she wonders if the crash means she will never be a mother. "Even in good times, men are scared of getting married," says Walker. "In the coming depression, forget it."

WASHINGTON, 12:30 P.M.

White House Chief of Staff Howard Baker is on the phone to N.Y.S.E. Chairman John Phelan, among others. Baker also calls Treasury Secretary Baker in Europe, and he agrees to return as soon as possible to Washington.

NEW YORK, 12:30 P.M.

The Dow is falling again, now down 173.

SAN FRANCISCO, 10 A.M.

At Associated Foreign Exchange, a precious-metals and foreign-currency brokerage, a run begins on Krugerrands, Canadian Maple Leafs and American Eagle gold coins. The frenzy ends only when the company's entire stock is sold: 2,500 coins worth nearly $1 million.

WASHINGTON, 1 P.M.
David Ruder, chairman of the SEC, inadvertently sets off rumors that the N.Y.S.E. may be shut down. The market skids an additional 100 points in the next hour.

CHICAGO, NOON
The Standard and Poor's 500 trading pit at the Chicago Mercantile Exchange is quiet. Trading at the futures pit normally ratchets up or down in shifts of $5 to $20 a contract. Now it is moving in ticks of $250 to $1,000.

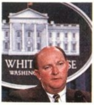
SAN FRANCISCO, 10:45 A.M.
Pink buy and sell orders litter the floor of the Pacific Stock Exchange. "I surrender!" shouts a frustrated dealer. Another slams his fist into his computer terminal.

NEW YORK, 2:15 P.M.
The Dow is down 300 points. Outside the N.Y.S.E., an investor jumps atop a parked car and screams, "Down with Reagan! Down with M.B.A.s! Down with yuppies!"

HOUSTON, 2 P.M.
Broker Walter Burke pauses amid the plaintive calls from his customers. "Everyone's scared," he says. "They're bailing out." But he finds one consolation. "A fast death," he philosophizes, "is better than a slow one."

BOSTON, 3 P.M.
At Fidelity Investments, manager of $75 billion worth of stock-market mutual funds, investors redeeming shares or switching to other funds swamp the firm. The company invokes a rarely used rule that allows seven days for such orders to be transacted.

WASHINGTON, 3:40 P.M.
Howard Baker and his deputy, Kenneth Duberstein, brief Ronald Reagan on the crash. White House Spokesman Marlin Fitzwater is instructed to issue a few calming words: "The underlying economy remains sound."



NEW YORK, 4 P.M.

The Big Board's worst day finally ends. Traders try to assess the damage. It will take them four more hours to process paper work created by the 604 million traded shares, a record. The day's loss of 508 points is another, most unwanted, first.

NEW YORK, 4:20 P.M.
Chairman Phelan declares the selling binge the "nearest thing to a financial meltdown that I ever want to see." Then he tempers his alarm: "These things usually exhaust themselves."

ST. LOUIS, 3:30 P.M.
Elliot Stein, chairman of Stifel Financial Corp., one of the city's largest investment firms, addresses his employees in grim jest: "I would like to open our teleconference by leading you in prayer."

WASHINGTON, 5 P.M.
Reagan, shouting over the roar of a helicopter's blades on the White House grounds, insists, "I don't think anyone should panic because all the economic indicators are solid."

TUESDAY, OCTOBER 20

TOKYO, 9 A.M.
In the first half-hour at the exchange, trading stops on all but three of the 250 listed Japanese stocks. "I've never seen anything like this," complains a trader. A downward spiral does not stop until 14.9% is chopped off the value of the Nikkei index. It is the worst one-day fall ever, eclipsing the 10% drop set off by the 1953 death of Joseph Stalin.


HASHIMOTO—SYGMA

MILAN, 10 A.M.
Rumors of a shutdown sweep the Palazzo Mezzanotte trading floor as the opening bell fails to ring. Finally the dealing begins, one hour late. As Fiat, Olivetti and other stocks lose 10% of their value, trading is stopped in each.

LONDON, 12:30 P.M.
U.S. investors have cabled sell orders, trying to dump shares in the British market. The *Financial Times* stock index drops 304 points by midday. Says a young dealer: "It is like opening a suitcase the wrong way and having all the contents spill out."

PARIS, 1:45 P.M.
LE CRASH, headlines the newspaper *Le Quotidien*, as local share prices stay flat for the day. The government postpones plans to sell shares in Matra, a giant state-owned defense and electronics firm.

WASHINGTON, 9 A.M.
Federal Reserve Board Chairman Alan Greenspan assures the nation's banks that the Fed will provide fresh funds if needed.

NEW YORK, 9 A.M.
Chemical and Marine Midland banks, which had raised their prime rates from 9¼% to 9¾%, roll back the hike.

NEW YORK, NOON
The N.Y.S.E. gyrates so wildly that floor specialists, who normally buy and sell stocks when no one else will, run out of cash. Trading stops in nearly 90 stocks. Exchange Chairman Phelan considers shutting down the entire market, but a sudden 120-point rally stays his hand. For a time, the Dow hovers at 1750.

SAN FRANCISCO, 9 A.M.
"Stop trading General Mills, influx of orders. Stop trading Northwest Air, influx of orders," command the p.a. speakers at the Pacific Stock Exchange. But the market trend is up. Says Specialist Kurtis Kupiec: "Today the world's a better place."

NEW YORK, 4 P.M.
The banks' moves spur a closing rally. The Dow winds up at 1841.01, a climb of 102.27 points. Trading breaks Monday's volume record. At the bell, Phelan waves from a balcony overlooking the floor. Relieved traders wave back and cheer.

WASHINGTON, 4:30 P.M.
Five senior advisers join Reagan in the White House and urge him to reassure the nation. This time the President tells a group of reporters, "I am willing to look at any proposals" from lawmakers on the budget deficit.

WEDNESDAY, OCTOBER 21

TOKYO, 9 A.M.
The worst is over—for now. A flood of buy orders propels an explosive rebound on the Kabutocho exchange. As each massive block of offered stock is snapped up, the trading floor erupts in applause. The Nikkei index makes a record gain of 2037.32 points.

The Crash

NEW YORK, 10 A.M.
The news from Tokyo buoys Wall Street, as do the Fed's reassurances of the previous day on the availability of credit. Major corporations take advantage of greatly discounted prices to buy large blocks of their own stock. Other bargain hunters also begin to prowl. One broker says the market is moving "from hell to heaven."

LONDON, 5 P.M.


After some swings, London joins the uptick. A Monday-Tuesday loss of $155 billion in stock values is dented by a hefty $48 billion recovery. The one-day stock-exchange index leaps 142.2 points, to 1943.8, a record increase.

NEW YORK, 4 P.M.


Before the final bell, 90 large companies announce plans to buy back their own shares. Phelan has asked the big-fund managers to avoid automatic programmed purchases and, above all, sales. This feeds the surging optimism and causes the Dow's biggest single-day climb ever: up 186.84 points, to 2027.85. More than half of Monday's loss is recovered.

THURSDAY, OCTOBER 22

TOKYO, 9 A.M.
The market starts strongly and does not falter. The Nikkei average picks up 475.05 points.

ZURICH, 9:15 A.M.
Traders at the 100-year-old exchange remain nervous. The market's index sinks 6.7%, from 1047.52 to 975.1.

TORONTO, 9:30 A.M.
Spirits are still high on the floor from Wednesday's lively market. Yet the Toronto index skids 142 points (4.3%) in the first hour. "This is like a yo-yo," laments one trader.

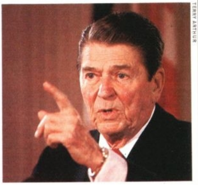
NEW YORK, 9:30 A.M.


Just before the opening bell, Phelan reads aloud a message from President Reagan praising traders for their "calm, professional" work during the frantic week. Citibank lowers its prime rate by a quarter-point, to 9%; other New York banks follow within 20 minutes. Inexplicably, the market plummets 138 points in the first 45 minutes, to 1888.

WASHINGTON, 2 P.M.
Both James Baker and Howard Baker prod Reagan in a series of White House meetings to work toward a market-calming budget compromise. They prep him for his critical 8 p.m. press conference. The President is advised to walk a delicate line: exude confidence about the economy without sounding like Herbert Hoover.

NEW YORK, 4 P.M.


Despite the scares, the floor traders heed the buttons they are wearing: DON'T PANIC. The Dow zigzags to a closing loss of 77.42 points, still worrisome. The N.Y.S.E. announces that on the next three trading days the market will close at 2 p.m.

WASHINGTON, 8 P.M.

TERRY ARTHUR

Reagan wobbles a bit on his press conference tightrope. He tacitly concedes that the U.S. is in an economic mess.

FRIDAY, OCTOBER 23

TOKYO, 2 P.M.
After a calm morning, a rumor wafts through the exchange: Iran is about to accept a cease-fire in its gulf war with Iraq. High-tech stocks like Matsushita and Fujitsu take off. But the Japanese government cannot confirm the report, and stocks retreat. In the final hour, a wave of panic selling drives the index down by 1203.23 points, to 23,201.22. It is Tokyo's second worst one-day beating ever.


KURITA—GAMMA/LIAISON

FRANKFURT, 3 P.M.


DPA

The U.S. dollar ends the week at 1.8060 marks, vs. 1.8015 a week earlier. The gain is modest but ironic, in view of the intention expressed by U.S. officials the weekend before to improve U.S. competitiveness by allowing a decline.

NEW YORK, 2 P.M.


The N.Y.S.E. closes two hours early with a minute change in the Dow (up .33 points, to 1950.76). Pondering the incredible week, Manhattan Investment Banker Felix Rohatyn, a staunch critic of Reagonomics, says he sees a new world in which governments are "held hostage" by the financial markets. He adds, "We really do not know what we've created. It's high tech and it's transnational and more powerful than anything we could ever have imagined."

NEW YORK, 3:30 P.M.


Donaldson, Lufkin & Jenrette Trader John Sesko goes straight from his company's trading floor to an automated bank machine elsewhere in Manhattan. Sesko punches its buttons, withdraws $100 and puts the money in his pocket. The cash, he says, "gives me a sense of security." Then he climbs onto a commuter train and sleeps all the way home to suburban Connecticut. —***By Ed Magnuson. Reported by Thomas McCarroll and Raji Samghabadi/New York, with other bureaus***

"I Feel a Lot Poorer Today"

One way or another, everyone is in the market, and anyone can lose

Bernice Garelick, 60, had felt sure that her husband Elias, a dentist, could retire in a few years and spend more time with her. But the crash shook her confidence. The Lindenhurst, N.Y., couple watched helplessly last week as their $300,000 portfolio of stocks sank in value by 20%. Said Bernice: "We have been investing in the market for 22 years. Now this happens, and it threatens what you have worked for over a lifetime."

She spoke for many Americans who felt their life's work and life's savings threatened last week. Since August, the plunging stock market has erased nearly $1 trillion of wealth that people had been counting on to buy new homes, pay tuition or secure retirement. For investors who had scored spectacular gains, on paper at least, the loss was calculated in the thousands, even millions, of dollars that vanished in a few hours.

Harder to measure but perhaps just as costly was the anxiety that rippled through the general public. Though only one in five U.S. households invests directly in the stock market, its gyrations can hurt everyone. People who had never bought a stock in their lives were struggling to figure out what the wild ride on Wall Street meant to them, their jobs, their families and their security. Businessmen feared that queasy consumers might stop spending as freely as they have been in recent years. Workers feared that a market collapse could usher in a recession that would cost them jobs or bonuses or take a bite out of their profit sharing or pensions. Those nearing retirement were concerned about the effect on pension funds and on investments that they will soon have to rely on for income. "It scares me to death," admitted a Miami homemaker, "because the market regulates everything."

Not exactly. But the market's health does have an enormous impact on consumer confidence, and thus on economic growth. The mechanism is as much psychological as it is financial. For the past five years, as long as the economy perked along nicely and the stock market bounded upward, it was easy for Americans to feel prosperous, whether they actually owned any stocks or not. Families were willing to take on mortgages to buy new homes, in part because they believed the economy would continue to grow and the value of the home would appreciate. Those who did own stocks enjoyed a dramatic increase in their paper wealth and felt free to spend more on new clothes, vacations, cars and theater tickets. That fueled the economic growth that fostered the widespread sense of well-being.

For many people watching stock prices plunge last week, that sense of security dissolved. "I feel a lot poorer today," sighed Bee Fitzpatrick, a New Orleans mother of two. Even if the market recovers some ground over the next few weeks, many people will still be uneasy about the future after seeing how far and how fast stocks can fall. As Columnist Robert Reno of *Newsday*, a New York newspaper, put it, "Nobody who has been on a falling elevator and survived ever again approaches such a conveyance without a fundamentally reduced degree of confidence."

ARMEN KACHATURIAN

"It might not be a bad idea to make some extra money. I can pay for the bathroom without waiting out the market." **The Coltons**

Of course, America's households will not stop spending money altogether, nor will they forget about Christmas, ignore charities and hoard gold. But the market's acrobatics left many people feeling a bit breathless and more than a bit scared. "Who knows what's ahead or how it may affect us?" asked Ed Robert, 53, a commercial-property manager in Houston. "All that fear in the air may trigger a recession and come back to haunt us."

Some families have become leery of going ahead with major expenditures, for fear they might one day need their cash to sustain them through difficult economic times. Auto dealers are already resigned to some falloff in demand until consumer nervousness subsides. Barbara and Jeffrey Colton of East Williston, N.Y., were planning to overhaul their leaky bathroom. But they did not get around to selling the stock they were going to use to pay for the renovation. When the market plunged, the plans were shelved. "Now we're probably going to do a patch job," says Barbara, a substitute teacher. She thinks she may accept some extra assignments that a few weeks ago she would have turned down. "It might not be a bad idea to make some extra money. Maybe I can pay for the bathroom without waiting out the market."

Housing could suffer from falling confidence. In an uncertain environment, young families may be reluctant to build a new home or take on a mortgage. Lower demand, in turn, could drive prices down. One New York City apartment hunter was having second thoughts last week about buying a condominium. "But the seller slashed the price, and we closed the deal," says a broker who represented the buyer. "The market crash saved my client $25,000."

Other sales were sidetracked. Real estate agents reported that some buyers were pulling out of deals at the last minute because the stock they had planned to sell in order to finance the down payment was suddenly worth less. Stan Smith, who sells corrugated containers out of La Grange, Ga., invested his entire $12,000 in savings in the market four months ago to earn enough to buy a house. "It was all so new to me," he says. "I'm the first kid in my family to go to college. I read the *Wall Street Journal*. And I had really become money conscious. I would say to my girlfriend, 'If we don't go out to dinner, I can buy another share of stock.'" When the market crashed, he found that what was intended as a short-term investment may tie up his money for years. Still, Smith considers himself a little luckier than some other Georgians. Says he: "One of my friends pumped everything he had into the market. He has three kids and one on the way. He sold Monday at a loss. I guess the stock market wasn't the thing to invest in."

Over the next few months, the private decisions of individuals may have a cumulative public effect. Consumer spending accounts for two-thirds of America's gross national product. A significant falloff might prompt retailers to withhold orders and not restock their shelves until demand recovers. Businesses might be forced to cut spending and lay off workers to protect profits. Rising unemployment could slash the income of many households, further depressing retail sales.

Some shopkeepers sensed an instant reaction last week. Helen Rickard owns the Olive Tree, a clothing and gift store in

CHEVY S-10.
WE'VE JUST LOWERED YOUR COST OF DRESSING UP.

As you run your finger down those long lists of options and break out in a big grin at their bottom lines, keep two things in mind:

There's more where those came from. There are new money-saving option packages for just about every 1988 Chevy S-10.* Including a Saver-Pac #1 that can put you in an S-10 dressed up with Durango trim, gages, power brakes, power steering, intermittent wipers and rally wheels for just $8,238.†

Those savings are real. In fact, equipped with one of our new option packages, don't be surprised to find that your kind of dressed-up Chevy S-10 is priced less than last year.

So get a move on to your Chevy dealer. The weekend's coming up. And you don't want to be seen driving a naked truck.

SAVER-PAC #2

- Tahoe Trim
- Power Brakes
- Power Steering
- Intermittent Wipers
- Tinted Glass
- Auxiliary Lighting
- AM/FM Stereo Cassette
- Sliding Rear Window
- Deluxe Chrome Rear Bumper
- Raised White-Lettered All-Season Radials
- Rally Wheels

1987 PRICE: $10,016†
1988 PRICE: $ 8,821†

SAVE: $ 1,195**

1988 Chevy S-10 Regular Cab 4x2 with Saver-Pac #2.

GM 6/60 QUALITY COMMITMENT PLAN

Let's get it together... buckle up.

See your Chevy dealer for terms and conditions of the limited powertrain warranty.

Best-backed Chevys ever. 6-year/60,000-mile powertrain warranty protection and 6 years or 100,000 miles of body-rust-through protection. Solid proof of the quality built into every new Chevy S-10 pickup.

SAVER-PAC #3

- Sport Trim
- Power Steering
- Tachometer
- Intermittent Wipers
- Heavy-Duty Battery
- Auxiliary Lighting
- AM/FM Stereo Cassette
- Color-Keyed Rear Bumper
- Payload Package
- Off-Road Package w/Transfer Case Shield
- Fuel Tank Shield
- Tow Hooks
- P235/75R-15 Raised White-Lettered Radials
- Aluminum Wheels
- 2.8L Fuel-Injected V6
- Rear Jump Seats

*Option packages not available on S-10 EL.
†Manufacturer's Suggested Retail Price including dealer prep and options indicated. Tax, license, destination charges and additional equipment extra.
**Savings based on Manufacturer's Suggested Retail Prices for 1988 models equipped with option packages versus comparably equipped 1987 counterparts.

1987 PRICE: $14,166†
1988 PRICE: $12,571†

SAVE: $ 1,595**

1988 Chevy S-10 Maxi-Cab 4x4 with Saver-Pac #3.

THE *Heartbeat* OF AMERICA TODAY'S CHEVY TRUCK

Rockford, Ill. "I find people coming through here and looking and saying 'Just browsing, thank you,'" she says. "It used to be that at this time of year they would at least try things on and put things on layaway to pick up as Christmas presents. But now everybody's apprehensive about turning loose their dollars." She estimates that her sales last week fell by 25% to 30%. "If it's a soft Christmas, I'm in trouble."

Falling sales could lead manufacturers to hold off on expansions. Rather than building factories and buying new equipment, businesses would look for bargains in used plants and machines. That would mean less work for contractors, carpenters and other members of construction crews. Richard Snow, director of the Associated General Contractors of Greater Milwaukee, conceded that area contractors were worried. "No hardhat is going to take a dive off an unfinished apartment building," he said, "but this crash could have serious effects down the road."

John Pratt, 54, who owns a service that supplies temporary industrial workers in Los Angeles, was less concerned about his long-term personal investments than about his business. "If the market hasn't recovered by the time I'm ready to go off into the sunset," he says, "this country is really in trouble. But I suspect that we could see a 10% to 20% drop in demand for our temporary labor as firms start to tighten up."

Owners of new businesses felt the pressure last week as well. Renée Ickson Young, 27, opened her own public relations firm in Manhattan last year. When she heard the news of last Monday's mayhem, she realized that she would have to adjust her business plan. "In a crunch," she says, "the extras are the first things to go at a company, and public relations is considered an extra." Until last week, Jo Ann Coogan, 30, of Dearborn, Mich., was planning to open a small brokerage. But her start-up money was heavily invested in the stock market. "I'm numb," she says. "All of a sudden you see how all of your life is affected by something like this."

Millions of Americans were concerned about what the market decline could do to their profit-sharing, pension and retirement plans. Some people have their Individual Retirement Accounts, for example, heavily invested in the stock market. Of the $1.4 trillion held by the nation's pension funds, roughly half was in stocks before last week. Retirees who are already collecting pension payments under defined-benefit plans are in no danger because of federal pension-insurance guarantees. Nonetheless, most pension funds have taken a beating over the past three months. A firm that finds its pension plan underfunded might have to dip into earnings or borrow from outside sources to meet its fixed obligations in the short term. Since pensions are based on salary scales, companies may choose to hold down wage increases to lower pension costs. Over the longer term, if the market stays depressed and squeezes earnings, many firms might be forced to reduce benefits for future retirees, postpone new investment or even cut their staff to restore solvency.

JEROME MAGID

"I'm numb. All of a sudden you see how all of your life is affected by something like this."

Jo Ann Coogan

At least some workers felt an immediate impact on their retirement prospects. In Wisconsin the State Employees Pension Fund suffered an estimated 20% loss in market value for the week. That decline caused some legislators to question whether the state could afford a proposed early-retirement bill that would have allowed some workers to start collecting their pensions at 55 rather than 62.

For retired people who supplement their Social Security with income from investments, the market had seemed a fairly benign environment in which to nurture a nest egg. But no longer. In Billings, Mont., Broker Ronald Scariano was besieged by calls from elderly clients. Some wanted to sell as the market slid downward, but Scariano held them off. "As long as they know that General Motors will keep paying dividends, they're O.K.," he said.

While younger investors can afford to ride out the market and avoid taking a loss until they sell their stock, some older shareholders do not have that flexibility. "At my age," says Don Fuchs, 64, a fund raiser for a Pasadena, Calif., medical research institution, "I don't have time to recoup if I take losses." He thinks back to August, when the Dow hit 2700 and he thought about selling. "But due to inertia and no feeling of urgency, I didn't." He suffered a paper loss of about $75,000.

Some people escaped in time. "It just seemed like the stock market was getting out of hand," says Peggy Anderson, whose husband John recently retired from his job as a pilot for United Airlines. The McHenry, Ill., couple live off the income from his pension, Social Security and investments, and were thankful to have sold most of their stock holdings before last week's plunge. "It was just a matter of how far it would go before it tumbled."

By and large, investors and non-investors alike emerged chastened and a bit more cautious than they had been before. Though some were eager to get back into the stock market to hunt for bargains, many decided to watch their spending more carefully and increase savings. That will weaken the economy in the short run, but it may produce at least one positive side effect. The newfound prudence could ultimately prove a benefit to a country that for years has been dangerously overborrowing and overspending. —*By Nancy R. Gibbs. Reported by Don Winbush/Miami and Richard Woodbury/Houston, with other bureaus*

HORAN—PICTURE GROUP

"The market was getting out of hand. It was just a matter of how far it would go before it tumbled."

The Andersons

The Shrinking of Fat City

Brokerages face bankruptcy, layoffs and maybe more regulation

The rumors mounted by the hour as Wall Street lunged and lurched through its wildest week. Many of the country's biggest brokerage firms and investment houses were said to be in trouble, even sinking: E.F. Hutton; Merrill Lynch; First Boston; Goldman, Sachs. Speculation swirled so briskly around Hutton that President Robert Rittereiser had to assure employees that the firm's financial resources were "strong and fully adequate." Though similar reassurances echoed up and down Wall Street, they left many doubts. As the stock-trading chaos continued, what would happen to the $50 billion American securities industry?

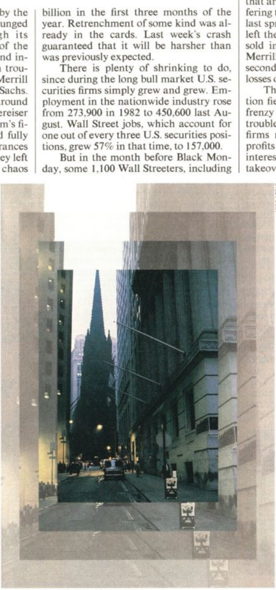
One Wall Street response was to turn to Madison Avenue. Sober television commercials popped up between World Series innings to reassure investors that their money was safe, and full-page ads appeared in major newspapers. Declared Prudential-Bache in large black type: "Now, especially now, you need an investment firm that is rock solid." That, of course, is exactly what Prudential claimed to be. Shearson Lehman implored readers to "talk with us" because "we share the concerns of every serious investor." Admonished Merrill Lynch: "The worst thing to do right now would be to sell at distressed prices."

While the brokerages tried to talk up investor confidence, the extent of the damage they had sustained was not known. The financial impact of Black Monday was delayed by a New York Stock Exchange rule that allows five working days to pass before traded securities must be paid for. But the 15 biggest U.S. firms clearly had taken huge losses—by one estimate, anywhere from $50 million to $250 million each—as they were caught with immense inventories of stocks that they could not sell. For those behemoths, with more than $20 billion in total capital, the bloodletting was serious but not fatal. For at least half a dozen small brokerages, however, the selling pressure was too much to withstand. Some agreed to be swallowed by larger firms to avoid bankruptcy court. Predicted Edward Altman, professor of finance at New York University: "There will be more blood on the Street before this is all over."

Even before Black Monday struck, there were signs that Wall Street's five-year stay in Fat City was ending. Profits were shrinking: during the second quarter of 1987, U.S. brokerages generated $553 million in pretax income, in contrast to $2 billion in the first three months of the year. Retrenchment of some kind was already in the cards. Last week's crash guaranteed that it will be harsher than was previously expected.

There is plenty of shrinking to do, since during the long bull market U.S. securities firms simply grew and grew. Employment in the nationwide industry rose from 273,900 in 1982 to 450,600 last August. Wall Street jobs, which account for one out of every three U.S. securities positions, grew 57% in that time, to 157,000.

But in the month before Black Monday, some 1,100 Wall Streeters, including many with salaries in the six-figure range, suddenly lost their jobs. In a startling move that rocked the financial community, prestigious Salomon Brothers announced it would stop trading municipal bonds, and 800 employees were told to clean out their desks. Kidder Peabody followed suit by letting 100 bond traders go. Said Samuel Ehrenhalt, New York regional commissioner for the Bureau of Labor Statistics: "What happened at Salomon is a portent of things to come."



BILL FOLEY

What had happened was, in a word, overexpansion. "We grew much too rapidly," concedes Robert Salomon, a managing director of the firm. Salomon's staff jumped 40% as the company added 2,300 people in the past twelve months. The rapid buildup helped entrench Salomon as the leading municipal-bond trader just as rising competition caused profits in that area to fall. Other big firms were suffering too. Merrill Lynch lost $275 million last spring when a slump in bond trading left the company with a mountain of unsold inventory. The price collapse gave Merrill Lynch a $145 million loss for the second quarter. First Boston admitted to losses of $100 million.

The booming mergers-and-acquisition field, focus of so much stock-market frenzy in the '80s, was also slipping into trouble. Last year the largest securities firms made an estimated third of their profits by financing merger mania. But interest-rate hikes and proposed anti-takeover legislation in Congress hobbled the pace of takeovers. Fearing a sharp fall in business, many houses were considering staff cutbacks. Among them: E.F. Hutton, First Boston and Prudential-Bache.

Last week's crash deepened the investment firms' concern by forcing corporate raiders to halt attacks on major takeover targets like Dayton Hudson and Gillette. The stock of such companies was suddenly worth far less than the raiders were offering. But at the same time, the drop in prices raised the possibility that takeover artists might spot new target shares that are now a bargain. Wheeler-dealers like T. Boone Pickens, Carl Icahn and Irwin Jacobs were said to be on just such a prowl.

Black Monday worsened the problems of so-called risk arbitragers, who buy stock in targeted takeover companies in the hope that they can sell the stock to a higher bidder. Monday's crash wiped out many of their assets. Among those severely affected was Abelow Ihasz & Co., which had 45 employees at the time of the crash. "We're not going to be trading until the market stabilizes," said Robert Levine, a general partner of the firm. "More than that I can't say." Recalled George Kellner of Kellner, DiLeo & Co., which sustained unspecified heavy losses: "It was humbling and humiliating. Someday I'd like to learn my lessons in an easier way."

The hardest hit of all last week were Wall Street's specialist firms, the traders who are charged with maintaining orderly markets. That task requires them to purchase stocks when there are no other buyers and to make sales when other sellers disappear. Until last week, a total of 52 specialist firms worked on the floor of the New York Stock Exchange; each handled the shares of 20 to 30 specified Big Board companies. On Black Monday, the specialists grimly fulfilled their responsibilities, buying millions of shares as prices

plunged all around them. Their losses could amount to as much as $750 million. The shock was too much for A.B. Tompane & Co., a 60-year-old specialist company that survived the 1929 Crash and traded in USX Corp. and Royal Dutch/Shell Group, among other stocks. Last week Tompane sold out to Merrill Lynch for an undisclosed sum. Also merged out of existence was W. Damm M. Frank & Co., an American Stock Exchange specialist that traded in 30 Amex stocks before the crash. The firm was acquired by Bear, Stearns. That could be only the beginning. Says Samuel Liss, an analyst at Salomon: "We are going to see more specialist firms merging with better-capitalized parents."

Securities firms outside Wall Street also felt mortal pain. In Grand Rapids, H.B. Shaine & Co., a regional brokerage with 107 employees, wound up in a merger after Monday's debacle pushed it into bankruptcy. The 4,500 accounts of the New York Stock Exchange member were taken over by Rodman & Renshaw, a Chicago firm.

In the weeks and months ahead, Wall Street's high-to-higher-flying style may be further crimped by additional Government regulation. David Ruder, chairman of the Securities and Exchange Commission, ordered the SEC staff to consider immediately ways to limit future mammoth market swings. Edward Markey, the Democratic chairman of the House Telecommunications and Finance Subcommittee, has called for hearings into the role of computerized trading programs that dump securities when the market falls.

Yet amid all the gloom, some firms found a few rays of hope glimmering for the future. Shearson reported opening a record 9,000 new customer accounts in one day last week. "We think this was a flight to quality," said Shearson Chairman Peter Cohen. "People are feeling that it's probably better to be housed in big firms rather than smaller ones." Whatever the reason, the new business was balm to the brokerage that announced last month it was firing 150 workers in its London offices and cutting back its trading of municipal bonds.

On one issue there was near unanimity. "There will be more layoffs," said Perrin Long, an analyst at Lipper Analytical Services, which studies securities firms. "The brokerages could run much leaner than they are now." Concurred Jack Barbanel, senior vice president of Gruntal & Co.: "The message is clear—Wall Street is tightening its hatches." Long predicts that as many as 24,000 securities-industry employees will lose their jobs over the next twelve to 18 months—and even that, he believes, is not enough. If Wall Street hopes to stay profitable in the troubled times ahead, Long thinks a safer number of layoffs would be 42,000. —*By John Greenwald.* ***Reported by Rodman Griffin and Frederick Ungeheuer/New York***

Rewards for Foresight and Luck

Donald Trump could not resist crowing. The flamboyant Manhattan real estate developer confided to journalists last week that he had foreseen the end of the long bull market in August, when the Dow Jones industrial average neared its peak of 2722. Trump, 41, had accordingly cashed in the bulk of his stock holdings, some $500 million worth of shares in Allegis, Holiday Inns, Bally Recreation and other companies. As Black Monday loomed for less fortunate investors, the tycoon claimed he had made a net profit of some $200 million. Now, Trump declared, he intended to "stay in cash for a while, see where the world is going."

Tony Cafazza, 46, owner of a St. Louis company that sells and services cash registers, rang up profits even as the crash began. Cafazza had sold his stock holdings during the previous three months, for a profit of $100,000. Then, in September, he bought so-called puts on General Motors—options to sell the company's stock at a fixed price in the future. On the Friday before Black Monday, as GM stock nose-dived 4⅞ points to close at 66, Cafazza cashed in his options, which soared in value because their set purchase price was higher than the worth of the slumping GM shares. In the process, he made an additional $41,000.

Trump and Cafazza were among the thousands of U.S. investors, big and small, who beat the odds and emerged as winners in the midst of the stock market's bloodletting. Some of those players, like Trump, had sensed the big drop coming and took their profits before that climactic moment. Others, like Cafazza, in effect bet on the market plunge by making investments that rise in value when stock prices crumble—either through options trading or a practice known as short selling. Yet another group of investors swooped aggressively into bargain-basement stock buying on Tuesday, after the Dow took its 508-point plunge, on the hunch that the market was certain to rebound. All of them proved that even on the worst of stock-trading days, there are winners as well as losers.


SCOTT DINE

Investor Cafazza managed to profit from puts

Some of the success stories were monumental. British Corporate Raider Sir James Goldsmith, 54, got out of the market well in advance of calamity. In late August he sold his 29% share of Occidentale Generale, a $1.55 billion Paris-based holding company that controls, among other things, the Grand Union supermarket chain, French publishing interests and vast stretches of Northeast U.S. timberland. Goldsmith's profit: $450 million. Having fled the market, Goldsmith declared, "I am a spectator, and will remain a spectator for the time being." An important factor that prompted Goldsmith to bail out of the market was the stubborn U.S. trade deficit, which, he had assumed, would eventually cause interest rates to rise and stock prices to fall. Said he: "This is exactly what has happened."

Ven Parameswaran, 57, president of First Asian Securities, a tiny New York City brokerage, earned a $13,750 profit last Monday using the same method as Cafazza: put options. Parameswaran made such a gamble on 5,000 shares of National Semiconductor, a Santa Clara, Calif., electronics company, which zoomed in value from 25¢ to $3 a share as the stock price of the firm tumbled 2¼ points on Monday, closing at 15. "I could have waited and got $4.25 per share for the options," Parameswaran said, "but I was not greedy."

There was more optimism than calculation behind the investment strategy of Ian Brown, 39, a Beverly Hills, Calif., plastic surgeon. Brown jumped into the stock market for the first time last week as the Big Board reached its record bottom, on the theory that things could hardly get worse. He bought $30,000 worth of shares in high-technology firms like IBM, Microsoft and Apple, with no intention of selling at all. Said Brown: "Now I'm just going to sit on them and watch and wait." By Friday the doctor's first foray into stocks was already beginning to look prescient: on paper at least, he had made a profit of $15,000.

The Crash

In the Shadows of the Twin Towers

How America's budget and trade deficits grew to daunting heights

"Reagan's economic policy is an off-the-wall approach. We're running an incredible experiment with these [budget and trade] deficits."
—The late economist Otto Eckstein, February 1982

"It is a scandal. I don't know what they're on, down in Washington. It's wacko time."
—Chrysler Chairman Lee Iacocca, February 1984

The warnings did not match the violence and volume of last week's stock-market statement, but they have been sounding for years. Innumerable economists, business leaders and politicians from both the Democratic and Republican parties have issued alarms about the growth of America's budget and trade deficits. And yet the problems grew and grew. Now dubbed the twin towers, a reference to Manhattan's World Trade Center and the long shadows it casts across Wall Street, the hulking deficits are threatening to sink the U.S. economy. In just a twinkling, between 1981 and 1986, the U.S. has metamorphosed from the world's largest creditor to the biggest borrower, carrying a net debt to foreigners that is expected to hit $1 trillion by 1992.

There is plenty of blame to go around, as the deficits are the product of a unique American decade of budget deadlock, unfettered spending and unprecedented borrowing. President Reagan, for his part, fought bitterly against tax increases and cuts in the defense budget when both seemed called for. The Democrats, for their part, were slow to compromise on social spending and, like the Republicans, cherished their pork-barrel projects. Corporate America, which had grown content with its domestic marketplace, aggravated the trade deficit by its lack of motivation to sell products abroad. Consumers added to the trouble by developing a ravenous taste for imported goods and credit-card spending. All told, the roaring '80s have been a time of refusal to confront limitations. Declares Investment Banker Felix Rohatyn: "In an act of the ultimate financial cowardice, we have attempted to pass on to our children the cost of this behavior by borrowing from tomorrow."

How did it happen? Fiscal restraint was already slipping when President Reagan took office. The fiscal-1980 budget gap was $73.8 billion, compared with a deficit of just $2.8 billion ten years earlier. Yet the real ballooning of the deficit to dangerous levels ($220.7 billion by fiscal 1986) was triggered during the early Reagan years, when the Administration tried to cut taxes and boost defense spending at the same time. According to Reagan's true believers, the deficits were supposed to shrink as a result of the tax cut. By stimulating the economy's so-called supply side, the cuts were expected to encourage work and investment so that Government revenues would actually rise rather than fall. Thus was born Reaganomics.

This proposed budget magic drew widespread skepticism, including George Bush's "voodoo economics" charge during the 1980 presidential primaries. Yet by 1981 Congress was eager to find a way to pump up the sagging economy. When Reagan sent Congress his tax-cut proposal, the lawmakers squabbled over the details but eventually gave the President virtually everything he wanted. In the end, the Economic Recovery Tax Act slashed personal-income tax rates 23% over three years. Reaganomics was supposed to produce a budget surplus of $500 million by 1984, but one of the Administration's master strategists, Budget Director David Stockman, knew better. "None of us really understands what's going on with all these numbers," he confessed in a December 1981 magazine article that rocked the White House. "People are getting from A to B, and it's not clear how they are getting there."

The tax cuts were accompanied by a substantial increase in federal spending, despite Reagan's campaign promises about reining in the Government. During the Administration's first term, total federal spending jumped 26%, to $852 billion in fiscal 1984. The biggest item was defense, reflecting the President's view that the military had suffered a decade of neglect in the 1970s. Reagan's buildup cost $1.2 trillion over the fiscal years 1981-'86, which boosted military spending 41% af-

Ways to Get Out from Under

Bringing down America's twin deficits will demand a wealth of ideas and compromises. No single fix will do the job. Nor are any of the remedies likely to be painless. But the Administration and Congress still have time to tailor a compromise on reducing the budget gap before the Nov. 20 deadline, when $23 billion in arbitrary cuts takes hold under the Gramm-Rudman law. Some reasonable proposals for boosting revenue, cutting spending and reducing the trade deficit:

Levy an energy tax. This could be a twofer: it would not only help ease the budget deficit but could also reduce the trade gap by discouraging demand for imported oil. A tax of $5 per bbl. on annual U.S. imports of some 1.5 billion bbl. of foreign crude would raise approximately $7.5 billion in extra revenues. An alternative is a gasoline tax of 5¢ per gal. in addition to the current 9¢ federal levy, which would produce an extra $5 billion or so (1986 U.S. consumption: 112 billion gal.). Though energy taxes tend to be regressive, citizens in low-income brackets could receive offsetting credits on their income tax returns.

Cut agricultural supports. Too much of the price-support budget goes to the wealthiest farmers. During 1985, when $23.7 billion was distributed, only one-third of U.S. farms collected price supports; almost 70% of those payments went to farmers with annual sales of $100,000 or more. Former Delaware Governor Pete du Pont, a Republican presidential contender, proposes to wean farmers from income subsidies over five years, thus producing a $5 billion savings the first year and $75 billion in total. Agrees Harvard Economist Robert Reich: "The benefit of such aid is not as great as the social costs in failing to cut it."

Trim defense spending. Since no one thinks that America's 2.1 million soldiers and sailors are overpaid, scrutiny should be focused on the 50% of the nearly $300 billion defense budget that goes for hardware, operations and maintenance. What deserves even more attention than the notorious price gouging by defense contractors on spare parts (one toilet seat: $750) is the wasteful proliferation of large-scale weapons systems. A raft of new, expensive hardware is coming out of research, ready to go into production. One package of eight strategic systems (total cost: at least $250 billion) includes the Stealth bomber and three missile systems: the submarine-launched D-5, the Mid-

ter adjustment for inflation. Among the new hardware: the B-1B bomber (cost: $280 billion) and the MX missile system ($20.7 billion for the first 50). The Strategic Defense Initiative, or Star Wars, research and development was allotted $9.3 billion for the first five years.

Yet the supply-side tax cuts, designed to stimulate the output of goods by giving workers and businesses greater rewards, failed to produce an offsetting revenue bonanza. While sky-high interest rates and the 1981-'82 recession might be partly to blame, supply-side critics say the idea was faulty from the start. In any case, the budget deficit exploded as Government receipts shrank. The flow of red ink nearly tripled in two years, hitting $207.8 billion in fiscal 1983. It would have been even higher if Congress had not adopted a $98 billion tax increase in 1982, which Reagan grudgingly signed. Moreover, the deficit kept mounting despite the Administration's imaginative revenue-boosting plans, which ranged from the sale of Government land to the increase of user fees for airports, waterways and even Coast Guard services.

Whistle blowers within the Administration were consistently squelched. When Martin Feldstein, the President's chief economic adviser in 1982-84, warned of the deficit dangers in the Administration's annual economic report, then Treasury Secretary Donald Regan told reporters they could "throw away" the document. Meanwhile, supply-siders like Economist Paul Craig Roberts, who was an Assistant Treasury Secretary during 1981 and 1982, kept minimizing the problem. Said he in 1984: "Deficits are on the way out." Later the Administration's budgeteers grew so wary of mentioning the prospect of new taxes that they started calling it the T word.

The Administration and Congress found some items to cut, though perhaps

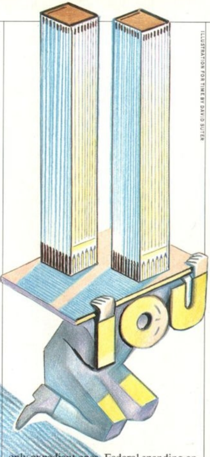


ILLUSTRATION FOR TIME BY DAVID SUTER

only expedient ones. Federal spending on nonmilitary research and development, after adjustment for inflation, has declined 25% from 1979 to 1986 while aid to schools has fallen 14%, notes former Commerce Secretary Peter Peterson. Many economists have railed against these cuts because they have borrowed from America's future competitiveness and well-being. Wrote Peterson in an essay in the October *Atlantic:* "Unfortunately, since the future has no lobby . . . the Administration and Congress have found this the perfect place to demonstrate their budget-cutting zeal publicly even while allowing all other types of spending to keep rising."

The budget has become increasingly hard to trim as the outstanding federal debt ($2.37 trillion) has mounted, since interest payments on old borrowings are crowding out other items. Net interest outlays increased from 9% of the budget in fiscal 1980 to 14% in 1986, or $136 billion. Such uncontrollable expenditures, along with the Administration's determination to spare large categories like defense and Social Security, have forced budget cutters "to work in an impossibly small corner covering only 30% of the spending total," observes TIME Correspondent Lawrence Malkin in his recent book, *The National Debt.* A frustrated Pete Domenici, chairman of the Senate Budget Committee during 1981, told Reagan, "You can't get $100 billion in savings out of this little bitty piece that's left. You got money in there for feeding babies, for building roads, for cancer research, for the national parks, the FBI. We'll help you squeeze 'em, but we can't bleed 'em."

Perhaps the most insidious growth in the budget has come in payments to middle- and upper-class citizens, a type of handout that typically carries no test of need. Social Security payments have increased 17% between 1981 and 1986, to $198.8 billion, even after adjustment for inflation. Many entitlements rise automatically because they are indexed to inflation.

Farm supports, meanwhile, rose more than 500%, to $25.8 billion in 1986. Notes Journalist Alfred Malabre Jr. in his book *Beyond Our Means:* "In 1984, less than 20% of all direct Governmental aid to ag-

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getman and the Peacekeeper (formerly MX). Congress should seriously reconsider whether all these different weapons are necessary.

Tighten up interest deductions. America's most venerable tax shelter is the deduction on home-mortgage interest, a provision that was originally created to help families buy their first home. But perhaps that write-off is too generous. Earlier this month the House Ways and Means Committee adopted a $12.3 million tax-increase package that, among other measures, would finally put a cap on the deduction, limiting it to the first $1 million in mortgage debt. But why not lower the boom even further? As Committee Chairman Dan Rostenkowski pointed out, "With the people I represent, if you talk $75,000, you're talking big money for a home." A sensible limit might be $250,000.

Control entitlements. Federal entitlement payments that are dished out to citizens regardless of their financial need rose from $200 billion in 1979 to $400 billion in 1986, observes former Commerce Secretary Peter Peterson. Like many budget critics, Peterson advocates a so-called means test to make sure that such benefits as Social Security and Medicare go only to those who really need them. The number of senior citizens, for example, has grown significantly in recent years, but the group's poverty rate is edging downward (from 13.9% in 1978 to 12.4% last year). One type of means test would cut off benefits for recipients above a certain income level. "There's a big distinction between entitlements for poor people and entitlements for everybody," says Ruben Mettler, chairman of TRW. Another suggested method to get entitlement costs under control would be to reduce the cost-of-living adjustment from 100% of the consumer price index to, say, 60%.

Encourage consumers to save. If Americans increased their savings rate (only 4% of disposable income last year, vs. nearly 17% in Japan), they would spend less money on foreign imports and help cure the trade deficit. Moreover, an expansion of America's paltry savings pool would help reduce U.S. dependence on foreign financing. One proposal for bringing that about: a progressive consumption tax. This kind of levy would work like a national sales tax, but be progressive in the sense that it would exempt necessities (food, housing, medicine, clothing) to avoid putting an undue burden on low-income citizens. Former Arizona Governor Bruce Babbitt, a Democratic presidential contender, contends that a 5% consumption tax could raise $40 billion to $60 billion a year.

riculture went to farmers who were financially distressed. In other words, for every $1 going to needy farmers, some $4 was winding up with prosperous ones."

The alarming surge of the budget deficits through the $200 billion mark seems finally to be forcing some budget progress. The Administration agreed in 1985 to a freeze in the defense buildup, and that has held increases in military outlays below the level of inflation. During the same year, Congress passed the Gramm-Rudman deficit-reduction bill, designed to impose automatic spending reductions if the Administration and legislators failed to meet targets for cutbacks. But the Supreme Court found a crucial part of the law unconstitutional. By the time a revised version was passed in September, Congress had reduced the size of automatic cuts for fiscal 1988 from $37 billion to $23 billion and pushed back the deadline for a balanced budget from 1991 to 1993.

It is that trend toward postponing the tough budget-cutting decisions that has been spooking the financial markets. Said Federal Reserve Chairman Alan Greenspan during his Senate confirmation hearings in July: "Should the . . . evidence suggest that the deficit is getting out of control again, then we are going to find ourselves in a very serious financial bind."

As the budget swelled, a new problem was rising. America was consuming far more than it was producing. The deficit between U.S. imports and exports, $36.3 billion in 1980, jumped to $123.3 billion in 1984. The trade gap can be viewed at least partly as an outgrowth of Washington's budget deficits. Reason: the Federal Reserve felt compelled to keep interest rates high (average 1983 prime rate: 10.8%) during the early 1980s not only to attack inflation but also to attract foreign money to finance America's growing budget gap. That strategy worked well, making dollar-denominated securities so popular that the currency rose steadily in value. At first the mighty dollar seemed like a bonus, enabling U.S. consumers to travel cheaply overseas and buy foreign imports at bargain prices.

The strong dollar, however, had devastating consequences for American industry because it made U.S. exports more expensive and thus tougher to sell competitively abroad. Complained Edward Jefferson in early 1985, when he was chairman of Du Pont: "Since 1980 the rise in the value of the dollar has put a 50% surcharge on all U.S. goods sold abroad and a 50% subsidy on all imports." Caterpillar, the longtime world leader in sales of heavy construction equipment, posted losses of $953 million from 1982 through 1984, mostly because of a drop in overseas sales. An estimated 3 million U.S. manufacturing jobs disappeared as imported goods poured into the U.S. Finally corporate America's anguish grew so great that the finance ministers and central bankers of the five major industrial democracies met in September 1985 at Manhattan's Plaza Hotel to reach their now famous agreement to push down the dollar's value.

Yet the 40% decline in the currency since then has been slow to produce an impact. During 1986 the deficit hit $156 billion, and it is growing this year at a rate that could produce a gap of $171 billion. Most economists expected that an improvement in the trade balance would take more than a year, since the initial result of a weaker dollar is to make imported merchandise cost more and thus increase the country's bill for foreign merchandise. After two years, though, the volume of imports should have fallen enough to reduce the trade gap substantially. While exports have shown some modest gains during 1987, "it is clear we have not made a dent in the problem," contends Mark Anderson, an international economist for the AFL-CIO.

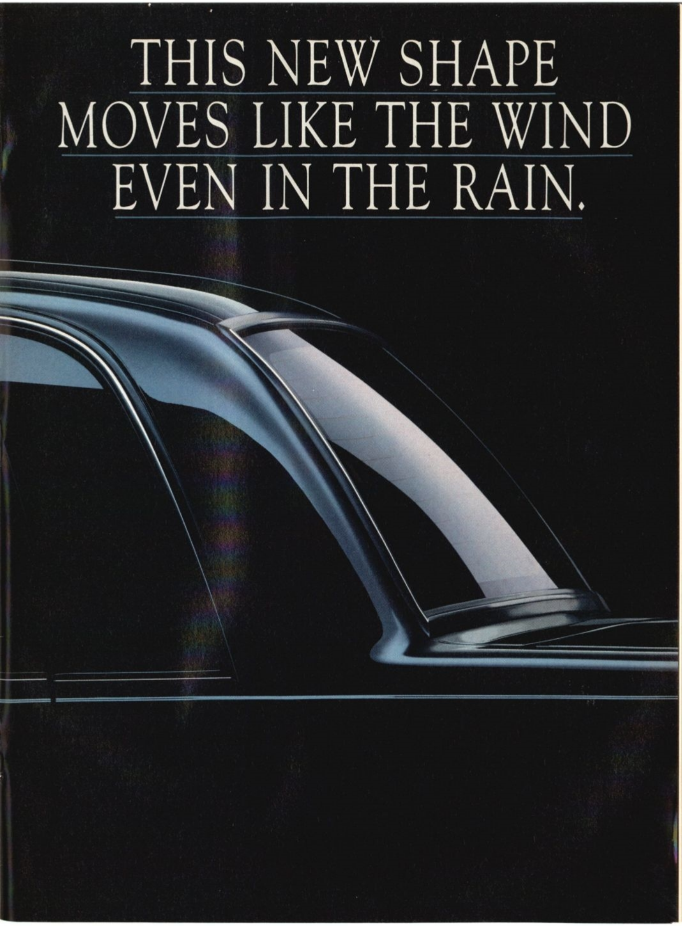
ILLUSTRATION FOR TIME BY DAVID SUTER

Some unexpected forces have interfered. One is that many foreign companies, determined to hold their U.S. market share, have postponed boosting their U.S. prices to compensate for the rise of their currencies against the dollar, even if it meant cutting into their profit margins. "The average foreign producer is probably selling at a loss right now," says Stephen Roach, a senior economist at the Morgan Stanley investment firm. Another factor is a reluctance among many U.S. businesses, which feel content with America as their main marketplace, to take advantage of the falling dollar to expand their sales abroad. Says Vladimir Pucik, assistant professor of international business at the University of Michigan: "What many American companies are doing is concentrating on defending their own territory. That's not enough."

Yet foreign markets have been less than welcoming. As the global marketing battle takes hold, some countries are reacting with protectionism. Moreover, economic expansion around the world is so sluggish at the moment that few countries besides the U.S. are showing much demand for imports. Observes David Hale, chief economist for Kemper Financial Services: "The U.S. has been playing the role of global borrower and spender of last resort because of a sharp slowdown in the growth rates of other countries."

The flabbiness of corporate America has been another major contributor to the trade deficit. Domestic manufacturers were ill-equipped to deal with the onslaught of eager foreign competitors. But now many U.S. companies have boosted their competitiveness by slimming down their costs and speeding up their reaction times. Among Detroit automakers, for instance, the "arrogance is diminishing. There is a sense of vulnerability," observes Maryann Keller, an auto-industry analyst.

Yet American companies cannot hope to conquer the trade deficit as long as its twin, the budget deficit, remains so huge. The stimulus of Washington's deficit spending, especially on a steadily expanding economy, makes the U.S. far too hungry for imported merchandise. This connection between the twin deficits has been almost universally recognized for years, and yet the Administration and Congress are still spending well beyond the country's means. That is the perilous formula that came to grief last week. *—By Stephen Koepp*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Snapped by Their Own Suspenders

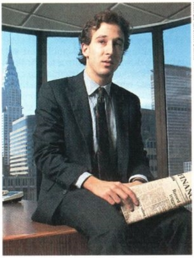
Ouch! Those yuppie brokers and bankers are bitten by the bear

O.K., so Michael Becker's woes won't bring tears to your eyes, but there's no need to snicker. Becker, 29 and single, works as a broker for Kidder Peabody on Wall Street. He earns a six-figure salary, likes his restaurants expensive and vacations in Africa, French Polynesia, Australia and London. This week he was scheduled to close on a loft apartment, but last week found him on the phone, pleading with his lawyer to extricate him from the contract. "I even told the shoeshine boy, 'I can't afford a shine today,' " he laments.

In the giddy rise of the stock market, no figures have been so celebrated—and so scorned—as the precocious young brokers and investment bankers reveling in million-dollar co-ops, BMWs and American Express Gold Cards. These are the yuppies, the generation of boastful baby boomers who had never before known a bear market. But last week's wild market gyrations, coming on top of recent layoffs on Wall Street, have left them breathless. "All of a sudden, people in my age group have come of age," says Ian Wiener, 26, a portfolio manager for Clemente Capital, a Manhattan money-management firm.

Gloating was inevitable, from the bad jokes making the rounds in San Francisco's financial district (What do you call a 28-year-old trader in suspenders? Hey, waiter!) to the hand-lettered sign in the window of Café Chameleon, a Manhattan nightclub: SO YOUR BROKER'S A LITTLE BROKER? Says Edward Singer, 62, a Portland, Ore., broker: "These younger money managers had become godlike in giving advice."

But at University of Pennsylvania's Wharton School, no one was smiling. Students clustered around a computer in a lobby to check their investments. More than 150 showed up for an impromptu forum last Tuesday to discuss the effect of the market's uncertainty on careers. "Let's put it this way: I was a future investment banker," says Harry Friedberg, 21, who used the $17,000 he made trading options last year to pay his tuition and room and board. But now, he says, "I'll look harder at marketing." For Neil Donnenfeld, 25, the panic only confirmed a decision last year to aim for a corporate career. Before he entered Wharton, he had been a broker at Evans & Co., making $75,000 a year. "I found the life-style absolutely unrealistic," he says. "I mean, how much champagne can you buy?"


ARMEN KACHATURIAN

Coming of age: Portfolio Manager Wiener

Greetings from the Brooklyn Bridge.

Visions of Champale haunted young financial types as they mentally prepared themselves for a world with less Taittinger. "I used to shop at Chanel," says M.J. Caldwell, a Wall Street broker in her mid-20s. "Now I'll be doing my shopping at Labels for Less." Caldwell, who majored in art history at Barnard, earns a salary in the low six figures and she spends accordingly. "I have every credit card known to man, but this morning I cut some up," she admits. Caldwell plans to keep the mink coat she bought last month, but forget about those $100 dinners for two. "I'll be staying home more to cook the two things I know, an omelet and Lean Cuisine."

For brokers and traders threatened with layoffs, future employment may be limited. "When the highflyers making $500,000 or $1 million look for a job, it will be difficult," said Len Clark of Boyden International, a recruiting firm in Manhattan. "There aren't many chief executives who make as much money as some of these Wall Streeters."

Some of the savvier stars are not so worried, however. David Garfinkel, a 32-year-old broker for Drexel Burnham Lambert, has earned $600,000 in commissions so far this year. Married to another Drexel Burnham vice president, he suspected good times would end and prepared by salting away money for his three-month-old daughter's college education in zero-coupon municipal bonds. He would not be surprised if his income drops by half, adding, "I'm ready fiscally. Emotionally? Time will tell."

Those with slashed paychecks might take a tip from Wiener and battle their low spirits with humor. After the crash, he sent postcards of the Brooklyn Bridge to friends. His message: "Went here to jump, but there were too many people in line." Becker is trying to laugh, but besides having to buy that loft, he must also take a vacation in Costa Rica next month. Why? He can't get his deposit back. Remember, no snickering . . . —***By Margot Hornblower. Reported by Jeanne McDowell and Jeannie Ralston/New York***

The Rise and Fall of Bud Fox

Young and eager, Bud Fox snares a $50,000-a-year job at a Wall Street investment bank. But he is not satisfied. Fox dreams of scoring the big trades. He gets his chance when he meets the wealthy corporate raider Gordon Gekko. "I'm offering you *rich,*" says Gekko. Enticed, Fox takes off into the stratosphere of high finance, only to crash-land a year later.

A tale from last week? Not quite. Fox is a character in *Wall Street,* a film directed by Oliver Stone *(Platoon)* and scheduled for December release that uncannily captures the real Wall Street's current mood. Says Kenneth Lipper, a former partner at Salomon Brothers and the movie's chief consultant: "There is a brooding omnipresence that the prosperity on Wall Street is headed toward a cataclysmic end." Stone, however, downplays the parallels. "You see the shadow of the crash, but *Wall Street* is the story of an individual."


SCHWARTZ—TWENTIETH CENTURY FOX

Trading places: Gekko (Michael Douglas) and Fox (Charlie Sheen)

Once upon a Time in October . . .

A jazz-age tale of shattered illusions and vanished fortunes

As usual, there were dark portents. On Sept. 5, 1929, just two days after the New York stock market reached its highest level in history, an eccentric statistician named Roger Babson warned the National Business Conference that "sooner or later a crash is coming, and it may be terrific." The market responded nervously, with the New York *Times's* 25 leading industrial stocks taking a 10-point dip, then recovering. The *Times* fretted about the "idea of an utterly disastrous and paralyzing crash."

Also as usual, the portents went largely ignored. People yearned to believe what the authorities told them. Calvin Coolidge, on turning over the White House to Herbert Hoover earlier that year, had pronounced the U.S. economy "absolutely sound." Charles E. Mitchell, chairman of the National City Bank of New York, echoed the former President in early October by declaring that the "industrial situation of the U.S. is absolutely sound, and our credit situation is in no way critical."

That is what the market seemed to have been saying for some time. The average top price for the *Times* industrials had risen from 186 in 1926 to 469. Just in the previous 18 months, General Motors had climbed from 73 to 140, General Electric from 129 to 396. Best of all, in the view of the investors who spent much of their spare time eyeing the tickers in the brokerage houses that were springing up around the country, stocks could be bought on margin, or credit, for as little as 10% in cash. About one-third of the nation's more than 3 million stockholders were playing the market on margin, and people at dinner parties kept telling stories about barbers or messenger boys who had kept their ears open, bought on margin and become millionaires. John J. Raskob, who had been a director of General Motors and was now the Democratic Party chairman, published an article titled "Everybody Ought to Be Rich." The jazz age would never end. What almost nobody seemed to notice was that while the leading stocks kept climbing, many others did not. Celanese, for example, had dropped from 118 to 66 since 1927, Philip Morris from 41 to 12. The speculators also did not seem to notice that the allegedly sound economy had started slowing. By October of 1929 the Federal Reserve index of industrial production had dropped from 126 to 117 since June. Homebuilding had been down for several years, and farming had been in trouble since the early 1920s.

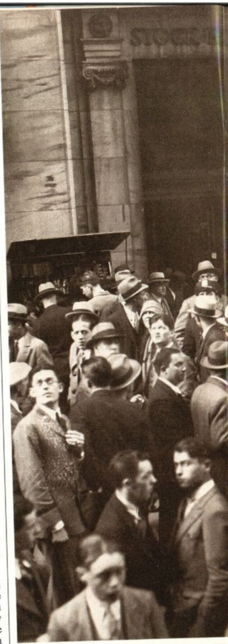
Or if they noticed, they didn't believe. Though stocks zigzagged but generally declined through September, Banker Mitchell announced on Oct. 15 that the "markets generally are now in a healthy condition." Irving Fisher, a Yale professor of political economy, declared that stock prices had reached "what looks like a permanently high plateau."

One thing people did notice the following week was that quite a few brokers were sending out quite a few margin calls: speculators who had bought declining stocks on credit would have to provide more cash or face the loss of their stocks. Late on Wednesday, Oct. 23, came a sharp break: 2.6 million shares sold in the closing hour. The *Times* industrial average dropped from 415 to 384. The market looked ahead to the next day's opening with a sense of dread.

"Promptly at 10 a.m. on Thursday, Oct. 24, sounded the gong of the New York Stock Exchange and 6,000 shares of Montgomery Ward changed hands at 83—its 1929 high having been 156," reported a six-year-old newsmagazine named TIME. "For so many months so many people had saved money and borrowed money and borrowed on their borrowings to possess themselves of the little pieces of paper by virtue of which they became partners in U.S. industry. Now they were trying to get rid of them even more frantically than they had tried to get them. Stocks bought without reference to their earnings were being sold without reference to their dividends. At around noon there came the no-bid menace. Even in a panic market, someone must buy the 'dumped' shares, but stocks were dropping from 2 to 10 points . . . before a buyer could be found for them."

Outside in the streets, people began drifting toward the pillared exchange building and assembling there as though it were some royal palace where a king lay dying. One observer recalled later that the people in the crowd showed "not so much suffering as a sort of horrified incredulity." In *Once in Golconda,* John Brooks' lively history of Wall Street, another witness observed that the crowd gave off a sound that "was subdued, a kind of murmur, hardly more than a whisper, broken occasionally by the distinct, surrealistic cackle of an isolated hysterical laugh." Of that crowd in the surviving photographs, Brooks added, "They stare in the way a caught fish stares as it lies on the beach."

A few minutes after noon, someone spotted Mitchell slipping into the offices of J.P. Morgan & Co. It was J.P. Morgan, according to Wall Street legend, who had stopped the Panic of 1907 virtually singlehanded by pumping money into a threatened company. The elder Morgan was



UPI

The tragedy unfolds: a worried crowd outside the exchange; brokers read the ticker; Hoover addresses the nation

UPI—BETTMANN NEWSPHOTOS

THE BETTMANN ARCHIVE, INC.

dead now, and his son was in Europe, but the firm's senior partner, Thomas W. Lamont, had summoned Mitchell and the heads of Chase National, Guaranty Trust, Bankers Trust and First National to the House of Morgan at 23 Wall Street. The bankers created a pool (estimates of its size range from $20 million to $240 million) to support the market. "There has been a little distress selling," Lamont told reporters, but he added that it was just a "technical condition" and "there are no houses in difficulty."

At 1:30 p.m., the bankers' pool went into action. The stock exchange's acting president, Richard Whitney, strode jauntily across the floor of the market to Post No. 2, where stocks in U.S. Steel were traded. Though U.S. Steel had already slid from 205 to 190, Whitney boldly offered to buy 10,000 shares at 205. His gesture had a spectacular effect. In record trading that finally totaled 12.9 million shares, the panicky market rallied. At the closing, the *Times* industrials were only 12 points below the previous day's level.

"Roaring was the business done by downtown speakeasies," TIME reported on the moderately happy ending to what soon came to be known as Black Thursday. "Wild were the rumors of ruin and suicide." It has always remained part of American legend that Black Thursday featured stockbrokers leaping from skyscraper windows, but specific instances are hard to find. The nearest to such a case was the president of Union Cigar, who was appalled when his company's shares fell from 113 to 4. He jumped or fell from a ledge of a New York hotel.

Contrary to popular belief, the Crash of 1929 did not take place in one or two days. It stretched out for weeks, gathering momentum through the autumn. On the day after Black Thursday, President Hoover bestirred himself and declared that the "fundamental business of the country, that is, production and distribution of commodities, is on a sound and prosperous basis." Share prices remained stable that Friday and Saturday. (Yes, markets were open on Saturdays, from 10 a.m. to 12 noon, until 1952.)

But then came a new collapse. On Monday, Oct. 28, the *Times* industrials sank an additional 49 points. Then came Black Tuesday, the most devastating day of all. Three million shares were sold in the first half-hour, and often there were no takers at any price. One block of White Sewing Machine Co., which had been 48 a share a few months before and 11 the previous night, reportedly went for 1 because a bright messenger boy made that offer and there were no others.

Once again the bankers met, but this time they gave up all hope of rallying the whole market; they agreed only to help fill "air holes," stocks that could find no buyers at all. This time no Dick Whitney went marching out to snap up U.S. Steel. Instead, Whitney and the rest of the exchange's governing committee met secretly in a room directly under the exchange floor to decide whether the markets should be temporarily shut down.

"The 40 governors came to the meeting in groups of two and three as unobtrusively as possible," Whitney recalled. "The office they met in was never designed for large meetings of this sort, with the result that most of the governors were compelled to stand or to sit on tables. As the meeting progressed, panic was raging overhead on the floor . . . The feelings of those present were revealed by their habit of continually lighting cigarettes, taking a puff or two, putting them out and lighting new ones—a practice which soon made the narrow room blue with smoke." After due deliberation, they decided to let the market run its course. By the end of that Black Tuesday, a record 16.4 million shares had changed hands, and the *Times* industrials had fallen 43 points more.

The ups and downs continued. The next day, U.S. Steel declared an extra dividend, the market took heart and the *Times* industrials gained 31 points. John D. Rockefeller, now 90, announced his optimism: "Believing that fundamental conditions of the country are sound . . . my son and I have for some days been purchasing sound common stocks." Retorted Comedian Eddie Cantor: "Sure, who else had any money left?"

Not until Nov. 13, finally, did the market groan down to its low point for the year. By then the *Times's* 25 industrials had sunk from 452 in September to 224. Of the $80 billion that the entire market's stocks had been worth in September, $30 billion had vanished into thin air.

As the year faded, President Hoover promised a tax cut, recommended public works, called a series of conferences with business leaders, and declared that "we have re-established confidence." But in the course of 1930, the *Times* industrials sank to 199, and the entire economy kept contracting; some 1,000 banks failed, wheat slumped from $1.35 per bu. to 76¢, and panhandlers proliferated. Hard times were here to stay.

Whether the crash caused the Depression or merely presaged it is still a topic of debate. Nobody can say with certainty what caused those twin catastrophes or who is to blame, and so theoreticians have accused greedy speculators, Wall Street manipulators, gold merchants and a carnival of other scapegoats. Those experts who contend that the crash did bring on the Depression blame the Federal Reserve for reacting to the collapse by allowing the money supply to diminish, thereby stifling consumption and investment. Others argue that the stock tumble was essentially a market correction and simply signaled the start of a recession.

One New Yorker came up with another kind of answer, or perhaps just an epitaph. It was a bedraggled parrot that a policeman found in Manhattan in November of 1929. "More margin!" the bird squawked, in echo of some desperate stockbroker's greedy injunction to the bird's vanished master in that already vanished era. "More margin!" —***By Otto Friedrich***

Snuffing a Summit

Gorbachev makes Star Wars the obstacle to a meeting with Reagan

George Shultz's visit to Moscow was supposed to pin down one achievement that could serve as a lifeline for Ronald Reagan's foundering presidency: the long-awaited and much heralded visit of Mikhail Gorbachev to the U.S. But the Soviet leader was curiously circumspect as he posed with the Secretary of State last Friday in the ocher-colored St. Catherine Hall of the Kremlin's Great Palace. "I think this will happen," he replied, somewhat evasively, when reporters questioned him about the prospects for a summit. Asked whether he would like to see just Washington or the rest of the country, he again sounded a note of doubt. "I would like to see the country, the whole country," he answered. "Whether I am able to is the question."

At a press conference in Washington the day before, the President, despite all his actor's wiles, could scarcely hide his eagerness for a Gorbachev visit. Indeed, there had been hope that Reagan might be able to open the session—his first in the White House in seven months—by announcing that the summit had finally been scheduled. But Shultz had not yet completed his talks; when a reporter raised the subject, Reagan could merely state, "We don't have a word yet or a date yet." Then he went on to muse about how he would like the Soviet leader "to see a great deal of America." They might end up, he said, at his ranch near Santa Barbara. "I've thought it would be kind of nice to invite him up to our 1,500-ft. adobe shack that was built in 1872 and let him see how a capitalist spends his holidays."

But it was not to be. In a move that blindsided the White House, Gorbachev declared that the pending agreement on intermediate-range nuclear forces (INF) was not, by itself, enough reason to justify a Washington summit. Unless the U.S. was willing to talk about ways to limit Reagan's cherished Strategic Defense Initiative program, he would prefer to pass up Thanksgiving at the ranch. Barely a year after he had done much the same in Reykjavík, Gorbachev pulled off a bait-and-switch scheme at Reagan's expense, luring him into high-level, high-visibility diplomacy only to shock and infuriate the Administration at the last minute by holding summitry hostage to American concessions on Star Wars.

The announcement was a devastating political blow for Reagan, all but ending his last, best hope for recovering from a string of setbacks that have left him, with 15 months remaining in his term, not just a lame duck but a crippled one. One after another, his major goals for this fall have gone aglimmering: the appointment of Robert Bork to the Supreme Court, the hope to win renewed funding for the *contras* in Nicaragua, and his aim of pushing through a budget plan that would protect defense spending without raising existing taxes or imposing new ones. The stock-market plunge only magnified his new aura of ineffectiveness. Through it all, he and his aides were hoping for a grandly choreographed summit with Gorbachev to salvage a bit of Reagan's public luster.

But the Soviets have made a habit of linking and unlinking progress on arms control to demands for restricting SDI. After relinking the issues in Reykjavík and thereby dooming that meeting to failure, Gorbachev just as suddenly announced last February that he was willing to sign an INF accord independent of any progress on SDI. The Administration was euphoric and tumbled through a set of negotiations that expanded the original INF proposal to include a virtual ban on all medium- and short-range missiles worldwide. But during the summer Soviet officials dropped hints, some of them in interviews with TIME, that the centerpiece for a summit should be "INF plus" rather than "INF only."

SDI remained high on the Kremlin agenda when Foreign Minister Eduard Shevardnadze arrived in Washington last month to work on the details of the INF pact. He brought with him a proposal refining Soviet demands that research and development of Star Wars weapons be restricted. Under the new Soviet plan, defensive technology in five categories—kinetic kill vehicles, particle and laser beams, electromagnetic weapons, and space-based mirrors—could be tested anywhere, including in space, as long as they were less powerful than certain agreed-upon levels, or "capacity thresholds." The testing of more powerful systems would be confined to laboratories on the ground.

Shultz's senior arms-control adviser, Paul Nitze, had been pushing a similar plan. He was vigorously opposed by Defense Secretary Caspar Weinberger, an ardent SDI supporter who believes the U.S. should adopt an almost universally disputed "broad interpretation" of the 1972 antiballistic missile pact

Greeting Shultz: the sandbagging came near the end of a 4½-hour meeting

that permits all forms of Star Wars testing. Aware of Reagan's passionate attachment to SDI, Shultz and National Security Adviser Frank Carlucci were not eager to support Nitze too forcefully.

Shultz did, however, want flexibility to explore a possible compromise on SDI during his Moscow trip. But at a meeting of Reagan's National Security Planning Group, Weinberger "dumped all over the idea that the U.S. should 'show leg' in the talks," according to a participant. As a result, Shultz headed for Moscow with his hands tied.

His arrival was less than auspicious. A freak autumn fog blanketed Moscow's four airports; Shultz, Carlucci and their 110-member traveling party were forced to make the 700-mile journey from Helsinki to the Soviet capital on an overnight train. When they arrived, they knew that even without the unexpected hitch on Star Wars, sticky details on the INF pact still had to be resolved.

While Shultz and Shevardnadze conferred on a range of topics from human rights to tensions in the Persian Gulf, Soviet and American arms-control specialists huddled over disputed phrases within bracketed passages of the 100-page draft INF treaty. Even though West German Chancellor Helmut Kohl had pretty much removed a major obstacle by agreeing to destroy his country's arsenal of 72 aging Pershing IA missiles, the Soviets wanted the German weapons system and its U.S.-controlled warheads mentioned in what the Americans considered to be a bilateral accord. Both sides indicated that a compromise was reached. Other points of contention concerning on-sight verification measures have proved impossible to resolve. Even so, enough progress was made that Shultz did not suspect hopes for a summit would be jeopardized.

DOD

An experimental Star Wars missile heads on target

Over the summer, the Soviets had hinted at "INF plus."

Indeed, it was only toward the end of a numbing 4½-hour session with Gorbachev on Friday that Shultz first realized he would be returning empty-handed. The sandbag landed almost as an afterthought, as Shultz and Gorbachev were summing up their discussion. Reports one U.S. participant: "The Secretary asked about how they would characterize the atmosphere, all that routine stuff. Then Gorbachev just indicated that he would not be comfortable going to Washington with things as they were, and that's how they ended up."

RUDI FREY

Shultz, clearly disappointed, left the Kremlin and went to the secure "bubble" in the U.S. embassy to break the bad news to those working on the INF treaty. He reached Reagan by phone shortly after 9 a.m. Washington time on Friday. As the President left for Camp David, he was bombarded with questions about being spurned by the Soviet leader, and shrugged to indicate that he simply did not know how it would all come out. Gone for the moment were his exuberant self-assurance and unassailable optimism.

Although it seems evident in retrospect that the Soviets had long been planning to demand some SDI concessions as a prerequisite for a summit, their hand was probably helped by Reagan's weakened political condition. In addition, Congress is pushing for its own restrictions on SDI and other weapons programs in the defense budget. The situation was ideal for the Soviets to up the stakes once again.

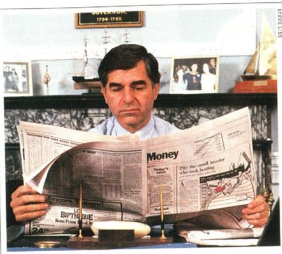
After the Moscow talks broke up, U.S. officials reiterated their support for SDI. Shultz reaffirmed that the President and the American people were determined to "learn how to defend ourselves against ballistic missiles." As Ambassador Edward Rowny, an arms-control adviser, bluntly put it, "The Soviets are still trying to chivy us on SDI. They haven't got the message that this President feels strongly about strategic defense." Reagan made that clear yet again in an interview with foreign journalists on Friday. "I cannot make that a bargaining chip," he said of SDI.

The drama, however, is not necessarily over. Reagan still wants—and needs—a summit. Shultz and Nitze may return to Washington with their hands strengthened for the next round of battles over how much negotiating flexibility they should have. Although Gorbachev's *"nyet,* not yet" makes it almost impossible to schedule a summit before the end of this year, both sides say they hope something can eventually be worked out.

Nor does the failure to schedule a summit necessarily doom the INF treaty. That is likely to be completed in the next few weeks, and the Soviets have hinted that it could be signed without a full-fledged summit. In addition, Gorbachev offered Shultz what one official called "some interesting sweeteners" on various arms-control issues that could make an eventual treaty on long-range missiles possible—if some way can be found to finesse the SDI dispute. They include a Soviet offer to lower the "subceiling" limiting the number of warheads on land-based strategic missiles, which would bring the Soviet proposal closer to that of the U.S. Gorbachev also promised that he would unilaterally suspend for one year construction of the controversial Krasnoyarsk radar installation that U.S. officials claim is in violation of the ABM treaty, though he implied that the U.S. ought to do likewise with a NATO radar station in Scotland.

The most intriguing offer from Gorbachev may be yet to come. Shevardnadze noted that the Soviet leader planned to send a personal note to Reagan that might put the summit back on track. When asked if he saw any need for another meeting with the Soviet Foreign Minister, Shultz replied, "I don't think we have anything in particular to meet about." Then he added, "The main thing, I guess, is to keep checking with the mailman to see what he brings." *—By John Kohan.*

Reported by Ricardo Chavira, with Shultz and James O. Jackson/Moscow



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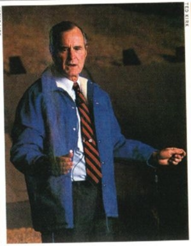

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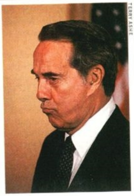


TERRY ASHE

Dukakis boned up on markets; Bush reaped confusion over his tax policy; Dole appeared the concerned legislator

Suffering from Ticker Shock

As the Dow rode a roller coaster, so did the presidential hopefuls

Shortly before the stock market opened on Meltdown Monday, Albert Gore was on the phone to a broker. The long-shot Democratic contender was not selling short in anticipation of the wake on Wall Street. Rather, Gore was searching for political portfolio insurance: reliable information about the direction of the markets. All presidential candidates were similarly affected by ticker shock during a dizzying week in which requests for quotes sent aides scurrying after the Dow Jones industrial average rather than *Bartlett's*.

The bearish rout on the stock exchange turned facile assumptions about the 1988 race into so much bull. It silenced complaints that the campaign was devoid of cutting issues and dashed Republican hopes of an election predicated on the Reaganite themes of stability and prosperity. The political futures index tilted toward the Democrats, as mayhem in the markets revived fears of recession. Four times in this century the Democrats have regained the White House following a Republican incumbency, each time against the backdrop of a sharp economic downturn.

Every presidential election is shaped by a handful of events that resonate with the electorate. Last week's wild-on-the-Street gyrations of the stock market are likely to become just such a political symbol, playing on voter fears that the economy has been held aloft by illusion. As Democratic Pollster Geoffrey Garin puts it, "We've seen over and over again in focus groups that people have had a sense of huge bills coming due, with no one knowing how to pay them." The market collapse, he argues, "becomes a defining event for 1988, because the potential for tragedy, which was abstract a month or two ago, has now become real."

Amid these concerns, there is a striking consensus in the political community over the extent to which the stocks of individual candidates rose and fell with the oscillations on the Big Board. Here is how political traders assess the current market prospects for some 1988 contenders:

Bush Enterprises. This blue-chip White House subsidiary plunged in heavy trading, owing to qualms about Reaganomics and the quality of hands-on management at the parent company.

Dole Family Industries. Had a banner week in an otherwise depressed G.O.P. market, as investors were attracted to its financial independence and its record of consistent political earnings in the area of deficit reduction.

Kemp Concepts. This speculative security was buffeted by market worries about the value of its supply-side patents.

Du Pont. As investors turn away from a free market, this stock lacks the chemistry of its corporate namesake.

Dukakis Systems. The company's strong management record in Massachusetts appealed to those seeking safety, although the firm's still vague economic plans may stifle future growth.

Gephardt International. Another firm strengthened by the move toward technocratic competence, but its heavy exposure in protectionist trade issues could backfire.

Same Old Simon. Despite the unorthodox look of the management, this stock continues to gain, especially among investors who remember the Depression.

Gore Southern. Trading was mixed, amid concerns that the company may have invested too heavily in national security issues.

Monday's frightening plunge in stock prices posed an immediate dilemma for the candidates: what to say and when to say it. Most Democrats erred on the side of caution, preferring not to be seen as gloating over the partisan advantage to be reaped from the economy's distress. The economic crisis seemed a tonic to Michael Dukakis; he projected a confidence rarely seen in the weeks since his campaign was rocked by disclosure of its role in leaking a tape that helped sabotage the candidacy of Joseph Biden. Dukakis' public words were a careful mixture of reassurance and assault, as he reserved his fire for safe targets like the Reagan deficit. "We cannot operate as a country by continuing to borrow billions and billions of dollars," he declared in Hartford.

Richard Gephardt displayed his mastery of the intricacies of the market crash in almost textbook fashion: he lectured a sleepy high school class in Sioux City, Iowa, on the global economy, complete with chalk diagrams. Gore jettisoned his standard text and went after the President with lines like "What crashed on Monday was not only the stock market but Reaganomics as well." Still, Bruce Babbitt remains the only Democrat to confront the deficit boldly, especially with his underdog challenge to middle-class entitlement programs.

On the Republican side, Robert Dole displayed artful footwork in distancing himself from the Administration, while George Bush thrashed about, entangled in voodoo economics. Highly visible as Senate minority leader, Dole projected the image of a concerned legislator ready to negotiate on the deficit. While skirting talk of a tax increase, Dole deftly tossed darts at the White House, describing himself as a "hands-on person. I don't let anything happen in my office that I don't know about."

For the first three days of the crisis, Bush was the invisible figure of a *Doonesbury* cartoon, failing even to play a behind-the-scenes role in White House meetings. On Thursday, when he finally surfaced to address a campaign rally in Miami, the Vice President found himself trapped by his official role. De-

nied permission to say anything that would preview the President's press conference, Bush was reduced to banalities. "I still believe the solution is not to go rushing out to raise taxes," he declared, staking out a position that Reagan seemed about to abandon. The next day in Iowa, the Vice President reaped further confusion by reframing his position on taxes. "I'll support the Administration, and I won't change," Bush promised. "But now I'm a candidate, and when I become President, there won't be any tax increases."

In any event, Iowa voters were in no mood to be patronized on the economy, as Pete du Pont learned to his mild distress. Visiting a weekly newspaper in Onawa, du Pont depicted the stock market crash as a "vote of no confidence" by millions of small investors who did not like the presidential front runners in either party. Loren Sawyer, 27, whose mother publishes the paper, was not about to let that comment pass unchallenged. "I didn't know small, grass-roots investors pulled out," said Sawyer. "I thought it was the investment banks and large firms that panicked." Du Pont smiled uncertainly at the young man and wisely changed the subject. It was a tactic that few candidates were able to emulate during a cataclysmic week that took the bloom off the economic boom. —*By Walter Shapiro. Reported by Laurence I. Barrett/Washington, with other bureaus*

Coping with the Crash

While traders panicked and economists wrung their hands over the stock-market meltdown, the public at large seemed relatively unfazed: 70% of 810 Americans polled for TIME *last Thursday by Yankelovich Clancy Shulman* said the market fall had no effect on their family's finances. Behind the general nonchalance, however, the survey found an undercurrent of anxiety: 46% said they were more worried now than before Monday's rout about America's economic future. Among the poll's findings:*

What is to be done?

Sixty-one percent of the respondents believed the stock-market crash will hurt all Americans, not just the wealthy. Though most people said they will not change their purchasing habits as a result of the stock-market decline, the number who plan to curtail spending could significantly affect the economy.

Are you likely to cut back your spending for:

	Yes	No
Vacations	**25%**	**71%**
Christmas presents	**23%**	**75%**
New clothes	**23%**	**75%**
Major items such as a new car	**35%**	**61%**

When asked about remedies for the U.S. budget deficits and trade imbalance, Americans leaned toward protectionism but would not like a tax increase.

As a way to improve the economy, do you favor or oppose:

	Favor	Oppose
Reducing military spending	**47%**	**43%**
Reducing spending for social programs	**35%**	**56%**
Lowering taxes	**54%**	**38%**
Raising taxes	**22%**	**72%**
Tougher restrictions on imports	**72%**	**21%**

Nevertheless, 50% of those surveyed said a tax hike will be necessary to reduce the federal budget deficit.

The President's performance

When asked, "Who or what is most to blame for the fall in the stock market," just 13% named Ronald Reagan, and 8% cited Congress; 36% blamed "basic problems in the American economy," while 28% said the crash is the fault of "Wall Street speculators." When asked about the federal deficit, 33% blamed Reagan, 47% blamed Congress, and 13% blamed both equally.

In general, 53% approved of the way the President is handling his job, but people are increasingly skeptical about his abilities: only 31% said they have a lot of confidence in Reagan on dealing with the economy (in contrast to 43% in 1985). Just 17% have a lot of confidence in Reagan on reducing the federal budget deficit; on this question, 29% have no confidence in him at all. While Republicans remain generally supportive, 59% of the public said Reagan is a less effective leader now than in the past. Many Americans doubt the President even has a handle on the pressing issues of the day.

Do you feel President Reagan fully understands the problems facing the country today, or are many problems beyond his grasp?

	Total	Republican	Independent	Democrat
Fully understands	**44%**	**64%**	**42%**	**34%**
Beyond his grasp	**50%**	**31%**	**53%**	**66%**

The effect on 1988

While 41% of those questioned think it would be better to have a Democrat as the next President, 28% want a Republican, and 22% said it makes no difference. Nevertheless, 65% said last week they want a President who will follow different policies from the Reagan Administration's (up from 57% in a TIME survey last August).

But Americans are even more uncertain about who the next President should be. Among the Democrats and those who lean Democratic, Jesse Jackson remained the first choice of 23%, followed by Governor Michael Dukakis (12%), with support for the other four candidates in single digits. A whopping 44% of the Democrats and leaners surveyed had no first choice for President, up from 28% in August; 61% said they were "only somewhat satisfied" or "not satisfied at all" with Democratic candidates, up from 49% in August.

A similar disaffection has occurred among Republicans and independents who lean toward the G.O.P. The result has been a drastic 13-point decline in support for George Bush over the past two months. Dole remained the same, while none of the other four Republicans is over 6%.

Which of these candidates would be your first choice as the Republican candidate for President?

	October	August
Vice President George Bush	**32%**	**45%**
Senator Robert Dole	**22%**	**21%**
None/Not sure	**30%**	**10%**

*The survey was conducted by telephone on Oct. 22. The potential sampling error is plus or minus 3.5% for the full sample, 5.5% for Democrats and leaners and 6% for Republicans and leaners. "Not sure" responses are not included.

Pondering a High-Proof Defense

Deaver may say alcoholism caused him to mislead a grand jury

Michael Deaver's history of drug and alcohol use was short but dramatic: rushed to the hospital with kidney failure the day before Ronald Reagan's second Inaugural celebration in January 1985; hospitalized for alcohol detoxification the following June, just after he resigned as White House deputy chief of staff to become a high-priced lobbyist; sent to an alcohol treatment center in Maryland for a one-month stint in October 1986, after which he became active in Alcoholics Anonymous.

In his forthcoming memoirs, *Behind the Scenes* (Morrow; $17.95), to be excerpted in next month's issue of LIFE magazine, Deaver, 49, says he was secretly drinking up to a quart of Scotch a day during his last year in the White House. The pressure of the capital, his associates now say, as well as financial and family problems, was getting to the President's high-strung friend.

Deaver's medical problems could become the subject of a legal dispute this week when the former White House assistant goes on trial in U.S. district court on five charges of perjury. Lawyers spent much of last week interviewing prospective jurors about their attitudes toward alcohol, indicating that the defense may attempt to use Deaver's addiction to exonerate him.

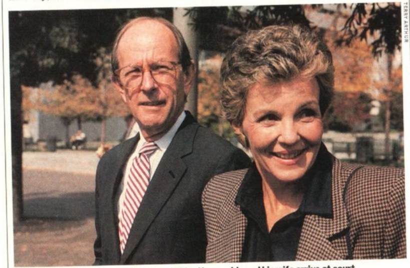
Because of his medical condition, his lawyers contend, Deaver could have been telling the truth when he told a congressional subcommittee and then a grand jury that he could not remember details about lobbying efforts that may have violated federal conflict-of-interest laws. Deaver claimed not to recall meetings or telephone conversations with White House and Cabinet officials during which he allegedly pushed for favors for clients such as TWA, Rockwell International, Philip Morris and the governments of Canada, South Korea and Puerto Rico.

Deaver's attorneys will argue that their client, who visited the White House frequently, could not recall those conversations because they were insignificant. His memory was also hazy, the lawyers may argue, because Deaver was in an alcoholic fog both at the time of the meetings and when he testified.

Although Independent Counsel Whitney North Seymour Jr. asked that expert testimony on the alcoholism issue be disallowed, Presiding Judge Thomas Penfield Jackson has agreed to hear medical witnesses on Deaver's problems. In other cases, judges have allowed testimony on whether alcohol impaired a defendant's intent to commit a crime. To prove perjury, Seymour must show that Deaver intended to lie under oath.

Legal experts are dubious about the prospects of an alcohol-related defense, though many believe it could be used to win some leniency for Deaver in sentencing. "This defense has been frequently used and has almost never been successful," says Harvard Law Professor Alan Dershowitz. "It's a defense of the last resort." Explains Lawyer Michael Kennedy, who cited his client's drug dependency in unsuccessfully appealing for a new murder trial for Schoolmistress Jean Harris: "Juries tend to look at addiction as something for which you must bear the responsibility. Therefore they are disinclined to let people off the hook."

Deaver seems to have made a strong comeback from alcoholism, and is dealing well with the strain of his impending trial. "He is a man at peace with himself," says a friend. "He's in marvelous mental shape, relaxed, pleasant and interested in gardening." Indeed, the day before jury selection began, Deaver was in his garden planting spring bulbs, a gesture that bespeaks some hope for the future. —*By Amy Wilentz.* *Reported by Anne Constable/Washington*


TERRY ARTHUR

More than a lost weekend: the former White House aide and his wife arrive at court

Abort/Adopt

A clinic offers a choice

When the 17-year-old pregnant high school student walked into the Reproductive Services clinic in San Antonio last July, it was to seek an abortion. Ordinarily she would have been turned away; the girl was more than 30 weeks pregnant, well past the clinic's 17-week cutoff point. This time, however, the counselors offered something different: the chance to put the baby up for adoption. Last Friday the girl's daughter Bethany, seven weeks old, became the first baby to be placed by the clinic with adoptive parents.

Reproductive Services, which operates abortion clinics in six cities in Texas and one in Oklahoma, has teamed up with Adoption Affiliates, a newly founded child-placement agency, to offer both services under one roof. The San Antonio clinic and its affiliates are counseling a dozen pregnant women who may give up their infants for adoption. Previously the clinic was turning away two or more women a week who were ineligible for abortions.

Observes Marilyn Chrisman, president of Nova Health Services, the nonprofit company that runs the unusual joint operation: "There was a big need for a continuum of services and greater support" for the women. Instead of paying an average fee of $200 for an abortion, the women who choose the adoption service carry their children to term and the clinic pays their medical expenses.

The combination of an abortion clinic and an adoption service has outraged Right to Life groups, which picketed Nova headquarters with signs reading DESTRUCTIVE SERVICES and DON'T TRUST YOUR BABY TO KILLERS. Says Bonnie DeVault, cofounder of Life Support Services: "They're saying, If you won't let us kill it, let us find it a home." DeVault extols the superior qualifications of churches and other traditional adoption agencies.

Still, a lot of would-be parents are considering this new alternative; Nova has already received numerous queries from prospective adoptive couples. With less than 5% of unwed American mothers willing to put their children up for adoption, the small number of women who cross the boundary from abortion clinic to adoption service may seem like a bonanza to childless couples. ■

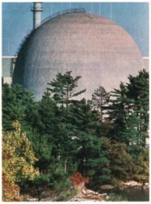
American Notes

BRAD MARKEL

Senate: there goes the judge

HESS—INDIANAPOLIS NEWS

Indianapolis: "I did everything humanly possible to prevent this"



WELLENBACH—AP

Maine Yankee: no nukes, no dump

THE SENATE

Closing the Book on Bork

The final tally was even worse than anticipated for Supreme Court Nominee Robert Bork. After three days of acrimonious debate, the Senate took a vote that Bork himself had requested to cut off the vituperation. Result: 58-42 against confirmation, the largest negative vote in history for a Supreme Court nominee. Joining the 54 Senators who had declared their opposition to Bork were Wisconsin Democrat William Proxmire and three surprises: Virginia Republican John Warner, Georgia Democrat Sam Nunn and Mississippi Democrat John Stennis, the Senate's conservative senior member.

The White House was already looking beyond the preordained outcome. Chief of Staff Howard Baker is expected to meet with the Senate leadership this week to review a list of new candidates.

INDIANAPOLIS

Disaster on a "Dead Stick"

Built in the 1960s, the A-7 Corsair fighter-bomber has been outmoded by more advanced planes such as the F-16. At Nevada's Nellis Air Force Base, where a squadron of A-7s is located, pilots say the plane is a "dead stick without power"—meaning that without engine thrust, the jet cannot easily be guided.

Over Indianapolis last week, that shortcoming led to disaster. An Air Force pilot, Major Bruce Teagarden, 35, was on a routine flight when his engine went dead at 30,000 ft. Gliding down to Indianapolis Airport through a low cloud cover, Teagarden came in too high to land. Unable to circle to another runway, he tried to steer the plane toward an open field. After dropping below 800 ft., he parachuted to safety.

The unmanned jet headed straight down, clipped the roof of a bank and slammed into the lobby of a Ramada Inn. Nine hotel employees were killed instantly and five others injured. The stunned Teagarden, who went into seclusion after the disaster, implored the bereaved families in a statement: "Please understand that I did everything humanly possible to prevent this."

MAINE

Big Vote Down East

With all eyes on 1988, many voters have shrugged off next week's local contests. Not so in Maine, where a hotly contested proposal to bar the creation of nuclear waste within the state will be decided next Tuesday. If approved, the measure would lead to the shutdown of Maine Yankee, a 15-year-old nuclear power plant.

Although Down East voters defeated two earlier proposals to close the plant, the antinuke campaign received a boost last year, when the U.S. Department of Energy identified Maine as a possible site of a radioactive waste dump. Now many residents fear that the only way to block the dump is to shut Maine Yankee, which stores its waste on site while sending half of its electricity out of state. Utility companies have shelled out $3 million for ads to save the facility, while antiplant forces have spent $500,000, making it the most expensive political campaign in Maine history.

WASHINGTON

Bell Tells A Sorry Story

Ronald Reagan's first Secretary of Education Terrel H. Bell resigned in 1984, weary of fighting with White House aides over his budget. In *The Thirteenth Man: A Reagan Cabinet Memoir,* to be published next year by the Free Press, Bell blasts unidentified "mid-level right-wing staffers at the White House" for a more disturbing characteristic: a proclivity for "sick humor and racist clichés." Examples: references to the late Martin Luther King Jr. as "Martin Lucifer Coon" and comments during discussions about the Middle East that Arabs were "sand niggers."

Though Bell did not accuse the President of making offensive remarks, the White House strongly denied his story. Said Presidential Spokesman Marlin Fitzwater: "Frankly, I don't believe it."

JUSTICE

Free at Last, Free at Last

Over the course of the trial, the judge's wife began and completed a master's degree in education. Two different jurors were married; one has already celebrated two anniversaries. All told, the court's transcribers pecked out more than 100,000 pages of testimony, the equivalent of a 33-ft. stack of typewriter bond paper.

But the longest jury trial in U.S. history—a 44-month marathon—finally ended last week in Belleville, Ill. The long-suffering twelve-member circuit court jury found Monsanto Co. guilty of failing to warn the town of Sturgeon, Mo., about the risk of a 1979 spill containing the toxic chemical dioxin. The jury ordered the chemical company to pay $16.2 million in damages, then left the courthouse to celebrate with Judge Richard Goldenhersh over margaritas and daiquiris at a nearby Mexican restaurant. Monsanto, meanwhile, announced that it will appeal.

THE GULF

Punch, Counterpunch

The U.S. avenges a missile attack, and Iran replies with a Silkworm

"Rashadat, Rashadat. This is the U.S. Navy. We will commence firing on your position at 1400 hours. You have 20 minutes to evacuate the platform." The warning was broadcast from a convoy of four U.S. destroyers steaming 3½ miles southeast of Iran's Rashadat oil-loading platforms in the Persian Gulf. The Iranians did not reply, but within minutes 20 to 30 men were seen scrambling off the facility, situated 75 miles off the Iranian coast, and into a small boat that sped north toward Lavan Island. The warships—the U.S.S. *Hoel, John Young, Leftwich* and *Kidd*—then poured 1,065 rounds of 5-in. shells onto the two platforms. When the blasting was over, the structures had been reduced to twisted, flaming hulks.

With the naval bombardment, the conflict in the Persian Gulf entered a new and more dangerous phase, one characterized, in typical Middle East fashion, by attacks and counterattacks, retaliation and revenge. The U.S. was responding to Iranian Silkworm missile strikes on the oil tankers *Sungari* and *Sea Isle City* two weeks ago. The *Sungari* is U.S.-owned, and the *Sea Isle City* is one of eleven Kuwaiti tankers now flying the American flag. President Reagan called the 85-minute blitz of the oil platforms a "prudent yet restrained response" to Iranian aggression. Secretary of Defense Caspar Weinberger told a press briefing after the Navy action, "We consider the matter closed."

The Iranians, however, did not see it that way. "God willing, we will carry out our duty in the coming days and make them sorry," said Parliament Speaker Hashemi Rafsanjani. At midweek the vow of vengeance was made good. Yet another Silkworm missile was launched from the Iranian-occupied Fao peninsula, about 50 miles north of Kuwait City. The missile scored a direct hit on Sea Island, Kuwait's only deep-water oil-loading facility. The strike caused an explosion that could be heard 20 miles away in Kuwait City. The loading dock's destruction could temporarily cripple the emirate's ability to pump its oil aboard the largest supertankers. No ship was docked there when the Silkworm struck, so only five workers were hurt, none seriously.

Kuwaiti defense forces on Failaka Island, 15 miles northeast of Kuwait City, watched the Silkworm blast off from Fao and head toward the oil dock. No effort was made to shoot the missile down, as had been done with the Silkworm that hit the *Sea Isle City*. Late in the week, however, Kuwaiti officials announced that they were setting up U.S.-made Hawk missile batteries on Failaka, where they will be close enough to Fao to interdict the Silkworms. The Kuwaitis have had the Viet Nam–era missiles since 1975.

The U.S. retaliation and the Iranian counterstrike abruptly changed the profile of the gulf confrontation. Suddenly it looked less like a protective operation, in which U.S. warships quietly go about

LWP—SIPA

Retaliation: when the shelling was finished, all that was left was a twisted, flaming hulk

keeping Kuwaiti oil tankers out of harm's way, and more like a direct face-off between Iran and the U.S.—a situation that, given the state of high dudgeon on both sides, could easily slide out of control. Secretary Weinberger, having made his point militarily, tried to turn down the rhetoric. "We do not seek any further confrontation with Iran," he said, "but we will be fully prepared to meet any escalation of military actions by Iran with stronger countermeasures." President Reagan was somewhat blunter. "We're not going to have a war with Iran," he said. "They're not *that* stupid."

Though the U.S. bombardment of Iranian oil platforms raised new fears, it received quiet backing from the Arab gulf states and more vocal support from West European allies and even from Congress, where the Senate has been eager to enhance Congress's role in deciding gulf policy. One senior Pentagon officer said the attack on the oil platforms, though seen by some of his colleagues as too mild, was "as much as we could do to the Iranians while doing the least possible to the Congress." The Senate passed a resolution supporting the retaliation by a 92-to-1 vote. Majority Leader Robert Byrd called the action "minimal and appropriate."

The Administration got more good news when the Senate postponed consideration of a bill that would have attempted to force the President to invoke the War Powers Resolution. That 1973 law gives Congress a role in deciding whether to continue a military action of the kind under way in the gulf. The Administration has maintained that the resolution does not apply to the U.S. presence. At a meeting with TIME editors last week, Weinberger claimed that Administration officials had done "more than we are obliged to do" when President Reagan conferred with congressional leaders before launching the assault and then issued a cursory written report to Congress.

After putting aside debate on the war-powers bill, the Senate passed a much weaker resolution, requiring the Administration to give a full report on the gulf situation to Congress within 30 days. The legislators would then have 30 days to pass a nonbinding resolution approving or rejecting the policy.

BARRY IVERSON

Revenge: repairing damage to the *Sea Isle City*, gutted by an Iranian missile two weeks ago

Like Congress, the public seems to have lined up behind the Administration, while worrying about a wider war. In a poll taken last week for TIME by Yankelovich Clancy Shulman,* 59% of those questioned approved of the reflagging operation in the gulf, up from 53% in a similar poll last August. At the same time, 73% of those questioned thought the U.S. actions were "likely" to result in more terrorism, and 68% thought they would result in a "military exchange" between Iran and the U.S. Despite those fears, 60% of those polled were in favor of stronger retaliatory action against Iran.

The White House did not need any polls to decide to take aggressive action in the wake of the attack on the *Sea Isle City*, in which two Americans were injured. The only questions were how and when to act. To some, the most logical course was to send Navy jets over Fao and pulverize the offending Silkworm missile launchers. But this scenario presented problems. The Chinese-made missiles can be moved within hours to another site. Since U.S. officials deliberated for several days before responding, a strike at Fao made little sense. "All we'd do there," Admiral William Crowe, Chairman of the Joint Chiefs of Staff, told TIME, "is kill a lot of date trees."

In addition, Fao is at the northern tip of the Persian Gulf, too far from the only U.S. fighter-bombers in the region. Those are aboard the U.S. aircraft carrier *Ranger* in the Arabian Sea and could not reach Fao without cumbersome midair refueling. The U.S. would only undertake a Fao mission if its planes were granted landing rights in Saudi Arabia or Kuwait, both of which have refused for fear of Iranian reprisal. Despite the recent attacks on Kuwait, Defense Minister Sheik Salem Al-Sabah last week reiterated his country's opposition to giving the U.S. access to the bases.

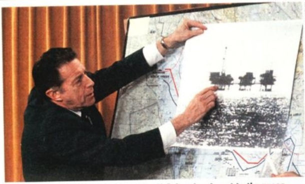
A final factor ruling out Fao was the Pentagon's assumption that its missile emplacements are protected by Hawk batteries—possibly the very ones made operational by the Reagan Administration's shipment of spare parts to Tehran in 1986 in an effort to free American hostages in Lebanon. The Administration was not willing to risk having a plane shot down or a pilot captured and marched through the streets of Tehran. The State Department last week issued new warnings to Americans not to travel to Iran because of "its virulent anti-American policies and support for terrorism."

Having rejected retaliation against Silkworm sites, U.S. officials began to consider other possibilities. Defense Secretary Weinberger and Admiral Crowe

*Conducted by telephone on Oct. 22 among 810 adult Americans. The sampling error is plus or minus 3.5%.

favored sinking an Iranian frigate, but that option was rejected by White House officials because it might result in Iranian casualties, which would trigger more demands that the War Powers Resolution be invoked. Possible attacks on Farsi Island, a base for the Revolutionary Guards that harass gulf shipping, and on the port city of Bandar Abbas, were turned down for the same reasons.

The Administration finally settled on the Rashadat oil platforms, which are part of a larger oil field called Rostam, as the perfect target. The facility, which has an underwater pipeline running to Iran's coastal Lavan Island and originally consisted of three platforms, has not been used for oil-loading purposes since one of its platforms was destroyed by Iraqi planes in November 1986. Instead, said Weinberger, it has recently been used "to mount radar surveillance, to report on convoy movements and to launch small-boat attacks against nonbelligerent shipping." Because Rostam is in international waters, attacking it did not blatantly challenge Iranian sovereignty. Militarily, the risks were minimal. Hitting Rostam also offered a small measure of revenge. On Oct. 8 a U.S. Navy helicopter reported being fired on from the facility.


KARL SCHUMACHER
Mapping it out: Weinberger explains U.S. bombardment to the press

When the four destroyers moved into position to launch their bombardment, two other warships were already posted at positions northeast of the platforms, prepared to stop any Iranian effort to defend them from Bandar Abbas. The initial shells hit stored fuel oil and ammunition, setting off a furious fire and a series of explosions. After 45 minutes little was left of the platforms, but the shelling continued. "We didn't spare the shells," said Weinberger. A senior naval officer was more emphatic: "We made a show of force."

After the shelling stopped, a Navy SEAL (Sea, Air and Land) commando team in a rubber Zodiac raft tied explosives to the pilings that remained and demolished them. Five miles away, a second SEAL team boarded another oil platform abandoned hours earlier by Iranians and destroyed communications and other equipment.

For all the sound and fury, the attack on Rostam was mostly symbolic. Neither side suffered any casualties, and loss of the platforms will not have much effect on the Iranians' ability to interfere with gulf ship traffic. U.S. hard-liners and Kuwaiti officials were dismayed, in fact, that the blow had been so soft. Some analysts saw no alternative in the long run to taking out the Silkworms, whatever the dangers and logistical difficulties. "You either have to destroy the missile sites or give up the notion of protecting the ships," said Edward Luttwak, a Washington-based military analyst.

An even better idea would be to cut off the source of the missiles, and last week the U.S. took steps to do that by announcing it was suspending transfers of high-technology equipment to China until it stops selling Silkworms to Iran. Both China and Iran deny any such transactions, but intelligence reports leave little doubt that Peking is the source. The suspension of technology sales means that China will not be able to buy legally from the U.S. some of the computers, semiconductor manufacturing equipment and other electronic gear essential to its modernization.

The latest gulf violence raised a host of larger questions. Chief among them: What will it now take to end the U.S.-Iran conflict? As last week's events show, both sides are on the alert, poised to take retaliatory action to defend their pride and maintain their credibility. Given the escalation mentality, a series of small confrontations could lead to more deadly military incidents. On the other hand, the fact that Iran responded to the U.S. attack by again hitting at Kuwait suggests that Ayatullah Ruhollah Khomeini is not ready to confront the U.S. military directly. Instead, Iran has chosen to sow confusion in the ranks of U.S. policymakers by striking collateral targets like Kuwait.

As a result, gulf specialists wondered last week whether the U.S. can or should take additional measures to defend the emirate. The broad U.S. goal in the gulf is, after all, to keep its waters open to shipping. If the Kuwaitis are prevented from selling their oil because of constant Iranian bombardment, then the stream of commerce will be disrupted. Moreover, the U.S. made a partial commitment to Kuwait's defense in July by agreeing to reflag its tankers. The U.S. extended that commitment when it reacted to the attack on the *Sea Isle City*, which was in Kuwaiti waters and therefore technically out of U.S. jurisdiction. Secretary Weinberger last week stretched it still further, saying in testimony before the Senate Foreign Relations Committee that U.S. warships would come to the aid of any neutral ship under attack, and might provide escort service to non-Kuwaiti ships "for a specific voyage."

Meanwhile, the U.S. gulf force was joined last week by an unusual new commando team: a crack unit of five dolphins, just out of boot camp. The marine mammals were set to work guarding two barges off Bahrain that the Navy is using as helicopter pads. Another group will arrive this week and begin work as mine hunters. They are all part of a top-secret Navy marine-mammal training program that costs $25 million a year. Officials took care to reassure animal lovers that the dolphins are used only to find mines, not to explode them, and therefore are in no danger—except for the normal risk incurred while swimming in what is fast becoming a serious war zone. —***By Michael S. Serrill.*** ***Reported by Dean Fischer/Kuwait and Bruce van Voorst/Washington***


KAVEH GOLESTAN
Another martyr: funeral in Tehran last week for Revolutionary Guardsman killed by U.S. forces

Both sides are poised to take action to defend their pride and credibility.

JAPAN

A Back-Room Man Steps Forward

Nakasone taps Takeshita as his successor

In the harsh glare of television lights and strobe flashes, the 63-year-old man seemed tired. His fatigue was understandable. For months, Noboru Takeshita had been the front runner among three candidates to succeed Yasuhiro Nakasone, Japan's popular Prime Minister. But though he controlled the largest bloc of votes in the ruling Liberal Democratic Party (L.D.P.), Takeshita did not have enough to take the office outright. Negotiations to persuade his rivals to withdraw were deadlocked. By 10 p.m. on the eve of a party vote, Takeshita, the consummate dealmaker, had realized there were no more deals to make. He reluctantly left the final decision to Nakasone, leader of the party. The Prime Minister might well have ignored Takeshita's party clout and chosen his rival, former Foreign Minister Shintaro Abe, a politician cut from the same cloth as Nakasone. Finally, minutes after midnight, the verdict arrived: Takeshita would be the next Prime Minister.

Living up to the standards set by Nakasone will be difficult. Newspaper commentators have already compared Takeshita unfavorably with the Prime Minister. The five-year reign of the dynamic, much traveled Nakasone put Japan on the world map—and the rest of the world on Japan's map. Takeshita's slight international experience is a painful shortcoming. His penchant for the slow process of consensus may also be a dangerous anachronism, the product of an age that Tokyo seems to have outgrown. Says Seizaburo Sato, a political scientist at the University of Tokyo: "If Takeshita had been elected in the 1960s, he would have been a very fine Prime Minister. But unfortunately he comes too late."

No one, however, disputes Takeshita's mastery of the intricacies of Japanese domestic politics. For 400 years members of the Takeshita family have run matters in the mountain town of Kakeyamachi (pop. 4,500) on the western side of Japan. With politics in his blood, the somber young man worked his way up from the grass roots into the upper hierarchy of the L.D.P., winning a seat in the Diet in 1958 and serving as Finance Minister under two Prime Ministers. Last year he became the party's secretary general. "Takeshita knew everyone's name," says a government official. "Unlike other politicians, he took great personal interest in you, no matter what your rank." His care and diligence paid off. Among the many feuding factions that make up the L.D.P., Takeshita leads the largest—114 members of 445 party members in the Diet.

That bloc worked to his advantage against his rivals for the prime ministership. While former Foreign Minister Shintaro Abe could boast of wide-ranging international contacts and Finance Minister Kiichi Miyazawa could traipse through Japan's bureaucratic jungle blindfolded, Takeshita had the greatest leverage in the party itself.

FUGO—SHUTTLE

Dressed in a summer kimono, the Prime Minister-designate relaxes at home

The party's consummate dealmaker "knew everyone's name."

Last summer Takeshita and Abe began negotiations to pool their votes on the condition that one scrap his candidacy in favor of the other. With the support of a third faction, the coalition would field a total of 231 votes. But talks bogged down. Last week three-way discussions with Miyazawa got nowhere. Meanwhile, Takeshita was well short of the 223 votes required to take the L.D.P. presidency. As party boss, the president automatically becomes Prime Minister.

Enter Nakasone. When negotiations broke down early last week, two of the contenders sought binding arbitration from the Prime Minister. Takeshita resisted. He was unsure whether he would get Nakasone's backing, since the two have had their political differences. But Takeshita finally relented and agreed to accept Nakasone's verdict. With that, Abe was touted by reporters and political pros as the likely compromise candidate. Some of Takeshita's men agreed.

But Nakasone realized that Takeshita, with his larger faction and political skills, would have an easier time getting his programs passed in the Diet. Nakasone is also certain to be a major influence in the new government. "Takeshita is not a stubborn man and will easily relinquish control of foreign policy matters to Nakasone," predicted a Miyazawa supporter. Some journalists have already tagged the new government "Sonetake."

Most Japanese will be relieved at Nakasone's continued presence. Many believed he helped paper over the worsening economic ties between the U.S. and Japan. The Reagan Administration, however, moved quickly to bolt together a Noboru-Ron concord along the lines of the vaunted Yasu-Ron friendship. After Nakasone made his choice known, Reagan telephoned Takeshita for a 15-minute chat. "Mind if I call you Noboru? Just call me Ron," the President reportedly said. But Takeshita, reticent about calling anyone but the closest of friends by their given names, called Reagan Mr. President.

Nakasone leaves his successor several sticky economic problems. Chief among them is Japan's $1 trillion total national debt. Nakasone unsuccessfully sought to battle the deficit by encouraging manufacturing exports. When international opinion turned against that drive, he began an expensive program to pump up domestic consumption. Tightfisted fiscal policies put ceilings on government spending but failed to cut the deficit. Nakasone was also unable to overhaul Japan's antiquated tax code and wring out much needed revenue. Says Kimihiro Masamura, an economist at Tokyo's Senshu University: "Mr. Nakasone almost flunked economic policy."

In the long run, the brash Nakasone style may have contributed little more than atmospherics to Japan's complex play of economic and political challenges. Takeshita, who is to be confirmed as Prime Minister by the Diet next week, will need to rely on his dealmaking skills to provide the muscle to back up permanent policy changes. For the time being, however, he can bask in the glow of victory, the latest survivor of the shadowy wars of Japanese succession. —***By Howard G. Chua-Eoan. Reported by Barry Hillenbrand and Yukinori Ishikawa/Tokyo***

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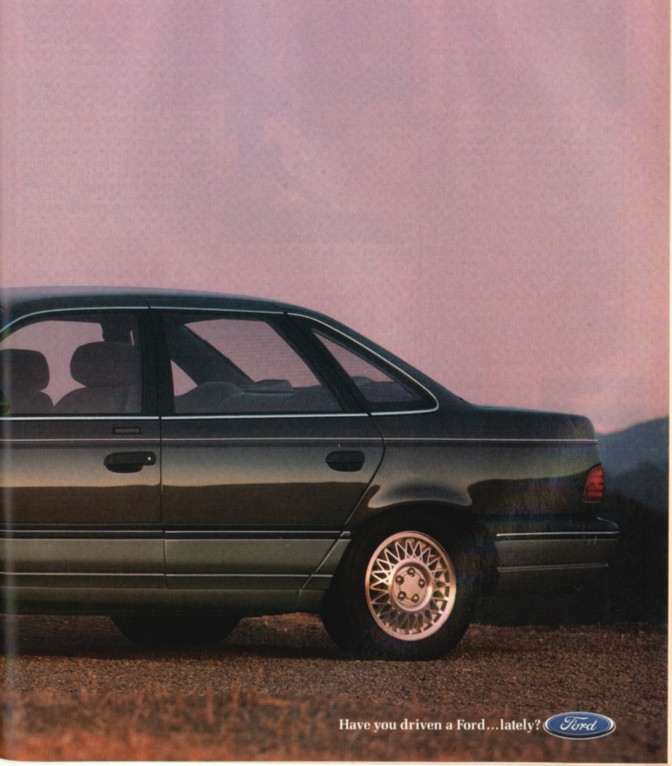


THE PHILIPPINES

Mean Momma

Aquino tries out a new act

For the first time in many months, Corazon Aquino wore her fighting color: yellow. It had been adopted as a trademark hue by the gigantic crowds that participated in her greatest triumph, the 1986 overthrow of Ferdinand Marcos. Now the Philippine President was taking up the color again as she launched a campaign against her gravest threat, a deep national malaise brought on by government ineptitude and the continuing threat of violent rebellion from left and right.

Speaking to a gathering of 1,300 supportive but nervous businessmen in Manila, Aquino was feisty, sarcastic and uncommonly firm. Said the President: "The question you all really want to ask is Can she hack it? Isn't she weak?" She proceeded to argue that she was strong. "Henceforth, I shall rule directly as President," said Aquino. "To the ad hoc committees and commissions created to inform me on their special areas, I add one more: an action committee of one member—me."

Responding to charges that she had no coherent policy to battle Communist insurgents, the President said her methods have "always been clear. First talk, and then fight." When the talks failed last February, she said, "it was time to fight, and it is still fighting time. Am I also expected to take up an M-16 and do it myself?" To respond to criticism that she was soft on the militant labor movement that had shut down numerous factories, she issued orders for the police to take down illegal strike barricades immediately. She castigated the military mutineers who sparked the current crisis with their nearly successful August uprising. "They fought me, I fought back. Surrender would have been neater, but it is not in me to yield." As she issued rapid-fire orders for road repair, garbage collection, telephone-line maintenance and an end to the constant power brownouts that afflict the capital, her listeners interrupted the speech with at least 27 rounds of applause.


CALDERON—J.B. PICTURES

Salvador Laurel

Some Manila newspapers that had been foretelling doom since the August rebellion had a change of heart. "This could be the turning point of the Aquino presidency," wrote the Manila *Chronicle*. Other papers rushed to publish Aquino's full text. Despite her rightward swing against labor and the Communists, even some of the President's supporters in the moderate left applauded the speech's implications. Indeed, many had felt that her aura of saintliness had got in the way of her politics for too long.


CALDERON—J.B. PICTURES

Showing the color: the President in Manila

"Am I also expected to take up an M-16?"

Aquino immediately set about personally surveying her domain. Amid threats of imminent coups and assassinations, she visited Davao City on the strife-torn island of Mindanao. By week's end the police were tearing down strike barricades. The moves are proving to be popular, so much so that even Aquino's disaffected Vice President, Salvador Laurel, has begun to soften his criticism of her leadership. Earlier, Laurel admitted there was a tactical alliance between some of his supporters and those of Aquino's archrival, Senator Juan Ponce Enrile. After the President's speech, Laurel said his differences with her had "started to narrow." Enrile, however, dismissed her pronouncements as "beautiful platitudes on garbage disposals."

Aquino's mean-momma posture is unlikely to produce results unless she gets some help. Unfortunately, she must still rely on a corrupt, underpaid and dispirited bureaucracy to carry out her plans and a bankrupt treasury to finance them. She has to go to a bickering Congress for approval of major initiatives. But Aquino now realizes she will have to work hard to keep the popularity that has buoyed her through the travails of the past 19 months. Said the President bitterly last week: "The honeymoon is over, isn't it? But I am not sorry. The sooner we get over the fantasy of the honeymoon and face the hard work of marriage—the marriage of President and nation—the better." Otherwise, the divorce will be shattering. —***By Howard G. Chua-Eoan. Reported by Jay Branegan and Nelly Sindayen/Manila.***

CENTRAL AMERICA

Deadline

Ready, aim, cease-fire?

What once seemed impossible is now just a week away. Come Nov. 5, hostilities are supposed to cease throughout Central America under a peace plan signed by five of the region's Presidents last August in Guatemala. As the date approaches, every little event is being analyzed, every statement weighed and debated.

Honduran President José Azcona Hoyo's visit to Washington last week received especially close scrutiny. Of the accord's five signatories, Azcona is most mindful of the Reagan Administration's reservations about the plan. Two weeks ago, Azcona hinted strongly that if the Sandinistas fail to comply with all the requirements of the peace plan by the Nov. 5 cease-fire, he would no longer feel bound to abide by the accord. Last week, however, he encouraged President Reagan to withhold further military aid to the *contras* at least until January, when the five Presidents will evaluate the plan's progress. He suggested that Congress might approve Reagan's request for $270 million in new aid, then place it in escrow.

The *contras,* meanwhile, were feeling the heat for three alleged kidnapings. Two Nicaraguan clergymen, released last week after an eleven-day captivity, charged that the rebels had threatened to kill them. Witness for Peace, a U.S. human rights group, charged that a volunteer, Paul Fisher, had been abducted. Rebel Spokeswoman Marta Sacasa said that all three men had been detained for their own protection and promised that Fisher would be released "as soon as there are secure circumstances."

In Nicaragua, former *Contra* Leader Edgar Chamorro returned to Managua under a government amnesty. Chamorro had been expelled by the rebels in 1984 after he made public a CIA training manual that encouraged the guerrillas to assassinate opponents. More unsettling for the *contras* was Miskito Leader Brooklyn Rivera's decision to travel to Managua for peace talks. The Sandinistas, who have mistreated the Miskitos for their dogged pursuit of autonomy, are now offering the Indians a separate peace.

The Sandinistas' glad hand did not extend, however, to Radio Católica, the religious station that was permitted to reopen last month after a 20-month hiatus. The government last week prohibited Radio Católica from broadcasting news, saying it must first obtain requisite permits. The Sandinistas also suspended a six-week-old visitors' program with Costa Rica after more than 1,200 Nicaraguans failed to return home from cross-border visits with relatives. Some skeptics wondered if such measures might signal the beginning of an attempt to slow the pace of reforms called for in the Guatemala plan. ■

World Notes

FINCK—AP

West Germany: a famous plane flies home to Hamburg

AVENTURIER—GAMMA/LIAISON

United Nations: Spain's Mayor

BALDEV—SYGMA

Sri Lanka: Indian with a captured flag

WEST GERMANY

Plane Goes, Pilot Stays

A famous plane flew home to Hamburg last week, but its famous pilot was not at the controls. Mathias Rust, 19, the West German amateur pilot who landed the rented Cessna just outside Moscow's Red Square last May, stayed behind in Lefortovo Prison awaiting assignment to a Soviet labor camp to serve his four-year sentence. The plane was flown to West Germany and transferred to its new owner, Munich Businessman Wolfgang Rudy Neumann, 51, who bought the craft from a Hamburg aviation club for $88,000.

Neumann intends to send the plane on a series of "peace flight" tours in Western Europe and the U.S. In the cabin will be two blank books, one addressed to President Reagan and the other to Soviet Leader Mikhail Gorbachev, in which the public can write personal peace messages.

UNITED NATIONS

The Spanish Compromise

For weeks the 158 member countries of the United Nations Educational, Scientific and Cultural Organization had been locked in a battle over choosing a new leader. Senegal's Amadou-Mahtar M'Bow, 66, was seeking his third six-year term as UNESCO director-general, despite complaints that his previous stints were characterized by profligate spending and anti-Western bias. The U.S. angrily withdrew from UNESCO in 1984, and Britain pulled out a year later. Last week the organization's executive board chose a compromise candidate, Federico Mayor Zaragoza, 53, a former Spanish Minister for Education and Science and onetime UNESCO deputy director.

Mayor's victory was assured when the Soviets, longtime backers of M'Bow's, told him it was time to step aside. The U.S. and Britain have no immediate plans to rejoin UNESCO, but they will nonetheless be watching Mayor's actions for signs of reform.

BELGIUM

When More Is Not Better

Belgium is a land of 5.6 million Dutch-speaking Flemings, 3.2 million French-speaking Walloons and, since World War II, no fewer than 33 governments. Most of those formed since the late 1960s have faltered over the contentious question of who should speak what language where. Last week the issue claimed its latest victim as Prime Minister Wilfried Martens resigned.

Martens, a Dutch-speaking Christian Democrat, threw in the towel after it became clear that his four-party, bilingual governing coalition was about to dissolve. The issue: what to do about José Happart, the acting mayor of Les Fourons, a small French-speaking town in Dutch-speaking Flanders. Happart refuses to take a Dutch-language competency test to prove his compliance with a law requiring that public officials conduct business in the language of their regions. French speakers reject the Flemish court ruling that introduced the competency tests; Dutch speakers want Happart removed from office.

Later in the week Martens put together a new government. His mandate: devise constitutional changes that might help resolve the language impasse.

SRI LANKA

Tigers Too Tough to Tame

When India's Prime Minister Rajiv Gandhi sent extra troops to Sri Lanka early this month to help end fighting by the island's Tamil separatists, the assumption was that the operation would be relatively quick and painless. After all, India's soldiers outnumbered the roughly 2,000 members of the ragtag Liberation Tigers of Tamil Eelam more than 3 to 1, and had the backing of Sri Lankan President Junius R. Jayewardene. But the offensive dragged on, offering little hope that the guerrillas will give up their four-year battle for an independent Tamil homeland.

In an effort to control Jaffna, the Tamils' last major stronghold, India last week increased its Tiger-fighting force to an estimated 11,000. A scheme to isolate Tamil leaders by offering conditional amnesty to the rebels' rank and file fizzled, however, when no Tigers accepted the offer.

FRANCE

For *le Taxi*, Blazing Seats

A wild ride in a Paris taxi can be an electrifying experience. Soon, it may prove to be even more shocking. Cabbies, alarmed by a recent wave of attacks by passengers, are eyeing a device called *le siège qui brûle*, the hot seat. Wires beneath the rear seats are connected to the taxi's battery. The driver can step on a pedal to deliver enough electricity to stun even a crazed gunman.

The hot seat was invented last year by two ex-soldiers in Israel, where 300 taxis are now wired. The device has been exported to Australia, West Germany and Saudi Arabia. The Israelis hope to start selling it in the U.S. by year's end. Expected price tag: $350.


ADAM JAHIEL AND OCEAN RESEARCH AND EXPEDITION—SYGMA

Double check for the voyage under: diver signals that French submersible *Nautile* passes inspection on a 12,500-ft. dive to explore wreck

Treasures Reclaimed from the Deep

Exclusive photographs of a rich trove of artifacts from the Titanic

"All around us there was this twisted mass of wreckage and tons of coal spread around. And then there was this lady's shoe. It was incredible, just haunting." That was the way Doug Llewelyn, an executive producer for Los Angeles–based Westgate Productions, described what it was like to view the sunken wreck of the ocean liner *Titanic* at first hand. Recalls Yann Keranflech, a member of the $2.5 million French expedition that last summer salvaged some 800 artifacts from the wreck: "You think about the victims. If you find a pair of shoes or a suitcase, you ask yourself if the person managed to survive."

On these pages, TIME presents exclusive photographs of the salvage operation, the *Titanic* itself and some of the recovered treasures. Among the objects brought up by French divers: a bronze teapot and coffeepot, a leather valise, a rococo vase, a statue of a cherub from the *Titanic's* first-class grand staircase and a ship's safe, which may contain a fortune in jewelry.

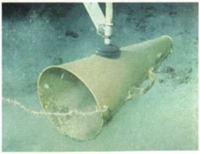
Indeed, this week television audiences around the world will be able to see footage of the awesome wreck, as well as objects from the *Titanic* that have not been seen since the "unsinkable" liner foundered on its maiden voyage in 1912, at a cost of 1,500 lives. The program's climax: the opening of the safe, a stunt that will inevitably be compared with TV Correspondent Geraldo Rivera's much ridiculed 1986 on-camera opening of Al Capone's empty "vault" in Chicago (a show also produced by Westgate). After filing unsuccessfully to block the broadcast, Florida Investor Michael Harris and four coplaintiffs are suing Westgate and other investors for $300 million, claiming they were cheated out of a share of the profits.


KEN MARSCHALL, FROM THE COLLECTION OF JOSEPH RYAN

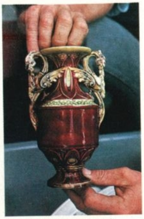
Last moments: painting of the great ship slipping into the Atlantic
Some 1,500 died when the "unsinkable" liner went down.

For years after the *Titanic* disaster, the exact location of the ship was unknown. It was not until 1985 that an expedition mounted by the Woods Hole Oceanographic Institution and the French Institute for Research and Development of the Sea (IFREMER) found it broken into two pieces in the North Atlantic, about 350 miles southeast of Newfoundland, in 12,500 ft. of water. The following year, Woods Hole Marine Geologist Robert Ballard returned to probe inside the rusting hull and take photographs. But Ballard's crew left the ship and its artifacts undisturbed and urged others to do the same as a memorial to

ADAM JAHIEL AND OCEAN RESEARCH AND EXPEDITION—SYGMA

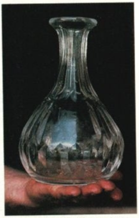


Clockwise from top left: porcelain vase is retrieved from near hull; the ship's prow; the captain's megaphone; a kettle; portholes amidships; a still closed leather satchel



Vase from first-class deck

Lamp from the stern bridge



Well-preserved crystal carafe

Cherub from grand staircase

ADAM JAHIEL AND OCEAN RESEARCH AND EXPEDITION/SYGMA

An array of sterling-silver cutlery scooped from the ocean floor

Coffee and teapots plucked from the debris

Bridge telegraph for signaling the engine room

Jar of skin cream, still fresh

Metal plaque bearing name of safe builder

those who had died in the tragedy.

Their French colleagues disagreed. Last July an IFREMER ship arrived at the site, and over the next 54 days researchers, filmmakers and financial backers made 32 dives in the submersible *Nautile*. The salvagers used two remote manipulator arms to pluck objects from the ocean floor and place them in a collecting basket. There were, notes Keranflech, "strange anomalies—a silver plate still as bright as if it had just been polished. Crystal glasses, beautiful porcelain plates and cups. When we brought them to the surface, everyone rushed up to see. We wanted to expose them to the air as little as possible, but it would have been criminal not to let the crew see them." Recalls Robert Chappaz, who helped secure financing for the mission: "We opened a leather case and saw that it was filled with jewels. We closed it immediately. The wreck was not our private toy."

From the outset, Woods Hole's Ballard has been sharply critical of the French expedition. "By what right did they take a piece of human history and destroy it?" he asks. But to say that the salvage operation exploited the *Titanic,* recently wrote William F. Buckley Jr., who visited the *Titanic* site last summer as a guest of the French, is like "saying that Gauguin exploited Tahiti."

Chappaz and his French colleagues feel the same way. "These objects would eventually have been destroyed by the sea," he says. "Why should we simply abandon them?" He adds, "I won't get rich from the *Titanic.*" Indeed, the objects are scheduled to go on a worldwide tour next summer and eventually be lent to various museums for public display. —**By Michael D. Lemonick.**
Reported by Joelle Attinger/Boston and William Dowell/Paris

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The TIME Education Program congratulates the 7 winners and 85 finalists of the 1987 Student Writing Contest!

The seventh annual TIME Education Program Student Writing Contest provided an opportunity for students nationwide to think about and express their views on contemporary issues. Students from nearly every state submitted essays and artwork to the contest. The winning entries, selected by a panel of editors and writers from TIME, represent outstanding work by American students.

The winner in each of the four writing categories received a $5,000 college scholarship; the winner in each art category received a $500 scholarship.

THE 1987 WINNERS

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Vincent Barrett • St. Thomas Aquinas High School • Ft. Lauderdale, Florida • Teacher: Christine Jones

World Category

Alison Morantz • Shawnee Mission East High School • Prairie Village, Kansas • Teacher: Bill Boley

Economy & Business Category

Tom Bozzo • Pennsbury High School • Fairless Hills, Pennsylvania • Teacher: David Miller

Technology Category

Danya Wayland Blair • McCullough High School • Woodlands, Texas • Teacher: Wanda Coleman

Cover Design Category

Salvatore Tramuto • William Floyd High School • Mastic Beach, New York • Teacher: Sue Hersh

Chart/Diagram Category

Dishan Chih • John Bowne High School • Flushing, New York • Teacher: Mitchell Kleinman

Political Cartoon Category

Chester Wajda • Lyons Township High School • LaGrange, Illinois • Teacher: Cathy Bogigian

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The deadline for next year's contest is March 1, 1988. The TIME Education Program Student Writing Contest is open to all high school and college students.

For more information on the Student Writing Contest and other educational programs offered by Time Inc., please call toll free, 1-800-523-8727 (in PA, 1-800-637-8509; in HI and AK, call collect 1-215-493-1221).

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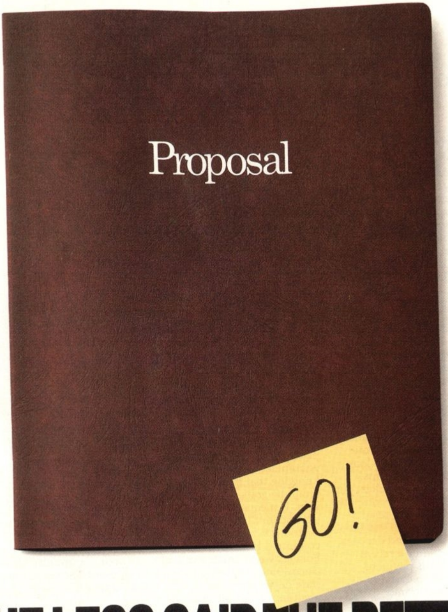

THE LESS SAID THE BETTER.

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Probing the Chambers of Cheops

Space-age technology reveals a 4,600-year-old wooden boat

JOHN G. ROSS

Fit for a king: reconstructed sister ship in museum at Giza

At exactly 2:40 a.m. last Tuesday, under the orange glow of a crescent moon, a small group of scientists gathered expectantly at an archaeological site south of the Great Pyramid of Cheops at Giza, just outside Cairo. They did not carry hand picks or shovels. Instead, they watched a TV monitor as a miniature camera was lowered into a narrow hole in the ground. When the video image flickered to life, the group gasped. There before them, inside a chamber that had been sealed 4,600 years ago, lay the dismantled timbers of a wooden ship. The archaeologists immediately recognized it as the long-sought companion to the famous royal ship of Cheops that now resides in a Giza museum.

The dramatic find was a triumph of space-age technology and archaeological investigation. The existence of the sister ship had been suspected since 1954, when the first vessel was discovered near the tomb of the Fourth Dynasty Pharaoh Cheops, or Khufu. Work at the new site began two weeks ago. The trick was to probe the chamber without disturbing the interior—including the 4,600-year-old air that might reveal secrets of the ancient atmosphere.

Bob Moores, a Black & Decker engineer who helped design a lunar-surface drill for the Apollo program, mated one of his company's drills with an ingenious air-lock seal. An industrial vacuum cleaner at the site sucked the dust from around the hole once the drilling got under way. To see inside the vault, technicians modified a miniature remote-controlled video camera so it could be inserted into the 3½-in.-wide entrance hole. The camera, originally designed to probe the interior of nuclear reactors, provided fiber-optic light without introducing any heat into the chamber. Over the site was a makeshift scaffold and the flags of Egypt and the National Geographic Society, the principal sponsor of the $250,000 project.

For three days the scientists drilled, an inch at a time. Last Monday morning, 62 in. into the porous limestone, the carbide-tipped drill broke through. Pieter Tans, a research scientist from the University of Colorado in Boulder, filled six canisters with 159 quarts of air drawn from the chamber. He also took a sniff. Said Tans: "I did not smell history. I didn't smell anything, except maybe staleness."

The inside of the chamber remained a mystery until early the next morning, when the video camera was finally lowered into place. What the scientists saw on the monitor looked like a pile of lumber under reed matting. Even so, recalled Tans, "as soon as we saw it, we knew it was a boat." Tohamy Mahmoud Ali, an Egyptian worker who had helped excavate the first vessel, broke into excited Arabic as he recognized the disassembled ship lying in its narrow pit. At one end were several upright pieces, perhaps parts of the prow.

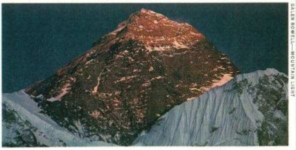
Since there are no immediate plans to excavate the ship, the scientists resealed the entrance hole after meticulously filming every inch of the chamber for later study and mapping. Using a special zoom lens, they filmed everything from the markings on the walls to the lengths of the boat's cedar planks. From the film, archaeologists hope to determine the size of the ship—and perhaps even discover clues to its purpose. Some scholars believe the vessels were intended to carry the spirits of the dead on their eternal journey around the earth with the sun-god Ra. They disagree, though, about whether they are so-called solar boats built for the daytime sojourn across the sky or ships intended for the nighttime voyage through the underworld. Still others speculate that they were simply funerary boats used to ferry Cheops' body down the Nile for burial. Whatever the purpose, Egyptian officials must now decide how to display their new, but still untouched, vessel. —*By David S. Jackson/Cairo*

King of the Mountains

Just a few feet, it seems, can make a difference. Last March, George Wallerstein, an astronomer at the University of Washington, stunned mountaineers and geologists by declaring that the Himalayan mountain known as K-2 might be 36 ft. taller than Mount Everest, long thought to be the world's highest peak. This month, however, an eight-man Italian expedition, led by Geologist Ardito Desio, 90, refuted that claim. Using satellite signals and surveying techniques, they found that Everest towers 29,108 ft. above sea level—80 ft. taller than previously believed and 840 ft. higher than K-2.

To accomplish their lofty task, the Italians carried computerized radio receivers to stations on each mountain. The instruments used timed signals from U.S. Navstar satellites to calculate the exact longitude, latitude and altitude of each receiver. Armed with these coordinates, the researchers then measured the angles formed by the peaks and the receiver stations with a surveyor's theodolite, as well as the distance between the stations. Since the length of one side of each triangle and two angles were known, the peaks' heights could be accurately determined by simple geometry.

Wallerstein readily concedes that his measurement, taken while climbing K-2, may have been inaccurate. "Mine was done with a secondhand receiver, while theirs was made with first-rate equipment," he says. "I guess it proves that in this business there's no place for amateurs."



GALEN ROWELL—MOUNTAIN LIGHT

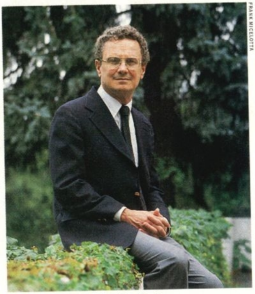
Himalayan high: Mount Everest towers over neighboring competition

Ethics

Examining the Limits of Life

A medical philosopher argues that longer is not always better

Americans have an "insatiable appetite for a longer life," complains Daniel Callahan, 57. They should be "creatively and honorably accepting aging and death, not struggling to overcome them." Medicine, Callahan chides, ought to "give up its relentless drive to extend the life of the aged," who in any event are often "being saved from death for chronic illness, with Alzheimer's as a tragic example." It is time to honor a "natural life-span" that normally winds down in the late 70s to mid-80s, he says. "How many years do we need to have a reasonably decent life, to raise a family, to work, to love?"



FRANK MICELOTTA

Author Callahan at the Hastings Center

The elderly should be "accepting aging and death."

A provocative argument: longer is not better. But Americans have shied off from similar points made in recent years. When former Colorado Governor Richard Lamm spoke out in 1984 about the terminally ill's "duty to die," his forthrightness seemed eccentric. In his writing, the late Dr. René Dubos urged more emphasis on the quality rather than the length of life, but his eloquence failed to generate sustained debate. Callahan, arguably the nation's leading medical ethicist, means to make discussion of the subject inescapable. For 18 years, as director of the Hastings Center in Briarcliff Manor, N.Y., he has grappled with the tide of problems arising from biomedical advances. In a new book called *Setting Limits* (Simon & Schuster; $18.95), he makes his hard case with a care that is feeling but unflinching.

The fastest growing age group in the U.S. proportionately is the over-85s, he reports, and children born this year can expect to live 16 years longer than their grandparents born in 1930. Such statistics prompt visions of a life-span beyond 100 years, a prospect Callahan finds alarming. In the past two decades, the amount of the federal budget spent on those over 65 leaped from 15% to 28%; and the $80 billion spent in health care for the old in 1981 is expected to pass $200 billion by the year 2000. The result is a serious threat to the economics of health care.

Callahan's long-term limits—medical, economic and social—will seem harsh to many. He would have Congress restrict Medicare payments for such procedures as organ transplants, heart bypasses and kidney dialysis for the aged. States should give legal status to "living wills," allowing individuals to demand that they not be kept alive artificially. Respirators would not be used for the terminally ill. On the emotional issue of extending life by use of feeding tubes, he reasons that as external life extenders in some cases, they also should be treated as artificial intrusions. His logic moves inexorably on to the withholding of costly antibiotics.

The author firmly opposes euthanasia, however, which involves active steps toward direct killing. And he would have doctors provide the elderly with greater relief of their suffering and more home care and support. He would also increase medical resources devoted to defective newborns, the now hopeless victims of AIDS or any nonaged patient with slim chances of recovery. "A 35-year-old has not had a chance to live out a full life-span," he says. "Some research may come along in time to save them—we don't know that they are all going to die." Callahan carefully avoids setting a flat cutoff age, preferring to let the condition of the patient, the judgment of the doctor and the wishes of the individual interact.

Part of his argument rests on a deep concern about "intergenerational equity." There are "better ways to spend money than indefinitely extending life," he charges. Long treatment of the elderly drains funds from the health needs of other groups and from urgent social problems. He also has withering views about many of the non-ill elderly: the "young-old" who deny age and indulge an "it's-my-turn" attitude. Their lives, says Callahan crustily, would gain meaning "if instead of taking a cruise, they work for a cause."

He knows that rationing health re-

A Death, A Life

Ethical complexities are increasing at the start of life as well. Last week Paul Holc, the youngest heart-transplant patient ever, was alive because of how a death-and-life problem was resolved in one case. Nine weeks ago, Canadians Karen, 27, and Fred, 36, learned that their unborn child lacked most of her brain. Called anencephaly, the always fatal malformation occurs in six of 10,000 births. Determined that some good should come from their tragedy, the couple decided to donate their baby's organs.

Infants in need of organ transplants greatly outnumber donors, but anencephalics have normally not been used. Reason: their organs have deteriorated too much by the time they are legally brain dead. But shortly after Baby Gabriel was born two weeks ago, Dr. Tim Frewen, head of pediatric intensive care at Children's Hospital in London, Ont., had her put on a life-support system to keep her organs healthy. Two days later, a test of her ability to breathe on her own was negative; three doctors, concluding all brain activity had ceased, declared Gabriel legally dead. Still on the life-support system, her body was flown to Loma Linda, Calif., where two days after her death, her heart was transplanted to Paul 2½ hours after his caesarean delivery.

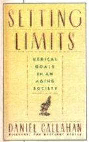
ANDERSEN—FIRST LIGHT

Two babies, one heart: Stiller and Frewen

Answering criticism about the temptation to declare death prematurely, Dr. Calvin Stiller, London's transplant-unit chief, insisted Gabriel's case represented "no slippery slope." Gabriel's parents agreed. "We cried, but we cried with joy," Karen remembers. They went out, ordered champagne and "celebrated Gabriel's contribution to this world."

sources on the basis of age is an "austere thesis," but he takes to the intellectual battlements willingly. Thinking through the fundamental moral and practical problems of life is the unique concern of the Hastings Center, which he co-founded with Psychiatrist Willard Gaylin in 1969. Reared in a comfortable Roman Catholic family in Washington, Callahan earned a Ph.D. in philosophy from Harvard in 1965. By then he was a leader in the effort to liberalize Catholic thought as an editor of the Catholic weekly *Commonweal*. But about 1968 "I started fading from Catholicism," he says without elaboration. "I ceased being a believer." His wife Sidney, a psychology professor and writer on religion and feminism, converted to the church and remains active in it; they have six children.

Writing a book in 1968 on the morality of abortion—he describes his stance as "conservative pro-choice"—Callahan hit on the idea for a think tank on biomedical ethics. At the start, Callahan and Gaylin wondered if there would be enough moral issues to keep them busy. But since an initial project on the definition of death, Hastings researchers have dealt with organ transplants, artificial reproduction, surrogate motherhood (Callahan opposes it; some of his colleagues approve), AIDS testing and privacy, genetic engineering—a never-ending list.



The center, which now has twelve professionals and a support staff of 15, is housed in a stucco mansion on the Pace University campus and runs on an annual budget of $1.6 million, met largely through foundation grants and contributions from its 11,000 members. In addition to publishing regularly, the Hastings ethicists develop model legislation, draw up guidelines for public policy, consult in such tortured cases as Karen Anne Quinlan's fate and assist universities in setting up ethics departments. "People used to think of medical ethics as between doctor and patient at the bedside," says Callahan. "We consider wider public policy, how Government spends its money, issues that affect millions of lives, as well as the exotic issues where the number is small."

He puts artificial reproduction and genetics at the top of his list of emerging concerns. The possibility of selecting a child's sex, he contends, has "profound social implications." Advances in genetic screening that identifies whether the unborn individual will be subject to heart disease or cancer or schizophrenia raise a new round of issues. Would altering the defective genes in utero be ethically permissible, given the risk of unforeseen results for future generations? The moral dilemmas spawned by the high-tech world of biomedicine—closer to salvation or Pandora's box?—are sufficient to keep Callahan and his Hastings associates busy for a lifetime. A natural life-span, of course. —***By Bonnie Angelo/New York***

Medicine

ROBERT TRIPPETT—SIPA

A few days after surgery, the First Lady waves to the press from her hospital-room window

Was This Operation Necessary?

Doctors question the First Lady's mastectomy decision

When Nancy Reagan entered Bethesda Naval Hospital two weeks ago, her plight, like that of Betty Ford 13 years ago, focused national attention on breast cancer. The affliction is the No. 3 killer of American women, after heart disease and lung cancer. The First Lady's case underscored the importance of early detection: her tumor was discovered during an annual mammogram, which is recommended for older women. But her choice of treatment caused some consternation and puzzlement in the medical community.

Mrs. Reagan's decision to have a modified radical mastectomy—the removal of the entire breast and underarm lymph nodes—struck some doctors as extreme. The reason: her tumor was just a quarter-inch in diameter—small enough to have been safely excised by a less disfiguring operation called a lumpectomy, in which the tumor is removed along with a minimum of surrounding tissue. The First Lady also chose to have the surgery immediately after her breast was biopsied. According to prevailing medical wisdom, it is better to wait a few days so that the biopsied tissue can be thoroughly examined and several treatment options considered.

"It's my opinion that she probably was overtreated," says Dr. I. Craig Henderson, director of the Breast Evaluation Center at Boston's Dana-Farber Cancer Institute. Henderson notes that several studies have shown that lumpectomy, followed by radiation treatment, is every bit as effective as mastectomy for even average-size breast tumors. In both procedures, women with early-stage cancers have a more than 90% chance of surviving at least five years after surgery. Modified radical mastectomy, however, remains the choice of most surgeons for women with large tumors.

Mrs. Reagan's decision to go from biopsy to surgery without pause was equally disturbing to many physicians. A complete biochemical evaluation of the excised tissue takes a few days, contends Radiation Therapist Robert L. Goodman of the University of Pennsylvania School of Medicine. The additional time gives patients a chance to seek second opinions and discuss the treatment with loved ones. Says Henderson: "Months or years later, they may become depressed if they feel they were hustled into a decision."

Even so, there are good reasons why the First Lady may have proceeded as she did. For women with small breasts, lumpectomy may not offer a significant cosmetic advantage over mastectomy. And some women feel safer if the entire breast is removed. Says Goodman: "There are women who fear they will spend 23 hours a day worrying that the cancer may have returned if their breast is left intact."

Will other women be more inclined to choose mastectomy, following the First Lady's example? Dr. Bernard Fisher of the University of Pittsburgh, a leading proponent of lumpectomy, thinks not. Most women are aware of the alternatives, he says. Indeed, eleven states have laws requiring doctors to inform breast-cancer patients of all treatment options. Last week, as Mrs. Reagan convalesced, it was already apparent that her battle with cancer was having at least one positive effect: radiologists around the country reported that appointments for mammograms were up sharply. —***By Claudia Wallis. Reported by Suzanne Wymelenberg/Boston***

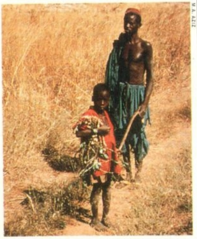
Miracle Worker

Cure for river blindness

In some West African villages it is common to see children leading their blind elders to the fields, where they serve as human scarecrows. With eyes full of parasitic worms and skin covered by itchy nodules, the adults suffer from onchocerciasis, a disease that afflicts 18 million people in the developing world and permanently blinds 500,000 each year. The worms are spread by black flies, which breed near fast-flowing tropical streams—hence the name river blindness. Last week New Jersey–based Merck & Co. announced that it will begin distributing ivermectin, a drug that halts onchocerciasis, to affected countries.

Moreover, Merck declared it would donate enough of the new drug through the World Health Organization to wipe out river blindness, possibly by the year 2000. For more than a decade, WHO has mounted spraying campaigns that have curbed the malady by attacking the carrier black flies. But in many areas the insects developed a resistance to the sprays. Enter ivermectin. The drug works by attacking the primary cause of the disease, the worms. Although it does not kill the invading parasites, biannual doses of ivermectin can prevent them from reproducing. Predicts Halfdan Mahler, director-general of WHO: "Ivermectin will revolutionize the way countries face this debilitating disease."

The new drug has one drawback. Since reinfection can always occur, most victims of onchocerciasis will have to take ivermectin for life. That is a small price to pay. Notes Hugh Taylor, a researcher at Johns Hopkins who has tested the drug in Senegal: "After treatment, people come up to me and say, 'Look how beautiful my skin is—and no itching!' " ■



M.A. AZIZ

Youth leads a blind adult in West Africa

Lyrics of Loss, Theories of Gain

Honor for a Soviet émigré poet and an M.I.T. economist

LITERATURE

Adrift in his native city of Leningrad in 1969, the young poet had good reason to feel depressed. He had spent 18 months laboring on a state farm in the Arctic, convicted by a Soviet court of being a "social parasite." Released but still convinced that his mission on earth was to write rather than surrender his skills to the dictates of the state, he faced bleak prospects: the official campaign to discredit him had taken on undertones of anti-Semitism, and his work was being subjected to the annihilating silence of suppression. So he composed "The End of a Beautiful Era," a poignant elegy on past illusions with a mordant conclusion about the future: "For the innocent head there is nothing in store but an ax/ and the evergreen laurel." Last week the eerie prophecy in these lines was fulfilled. Joseph Brodsky, 47, involuntarily cut off from his homeland in 1972, was given the Nobel Prize for Literature.

THOMAS VICTOR

Success in exile: Brodsky in his Manhattan apartment, 1986

"Nothing in store but an ax/ and the evergreen laurel."

The laurel may be new to Brodsky, who is one of the youngest writers to be so honored in the Nobel's 86-year history, but the recognition of his talent is by now a familiar story. His early poems were championed by such older cultural luminaries as the poet Anna Akhmatova. Getting off a plane in Vienna as a new émigré, Brodsky was taken under the protection and guidance of W.H. Auden, who had a summer house nearby. Within months he found himself in Ann Arbor, a poet-in-residence at the University of Michigan assigned, as he later whimsically wrote, "to wear out/ the patience of the ingenuous local youth." Since then he has lived steadily in the U.S. (he became a citizen in 1977), teaching, writing and gathering acclaim, including a $208,000 award from the MacArthur Foundation.

Brodsky's success in exile has been based on a comparatively modest output: three books of poems translated into English and a collection of essays, *Less Than One,* published last year. Yet his imagination, steeped in classical and European traditions, seems familiar and accessible to Western readers. Brodsky is a lyricist of loss, of the slipping away of the past, loved ones, youth; his customary tone is one of passion tempered by hard-earned irony. His poems rely heavily on visual impressions, as in this look at the scenery surrounding a state farm: "The horses, inflated casks/ of ribs trapped between shafts,/ snap at the rusted harrows/ with gnashing profiles." Such concrete images can survive the transition from Russian to English with much of their freshness intact. To write his poems, Brodsky still uses his native language, but he has acquired a formidable, sinuous command of English. He sometimes translates his own works.

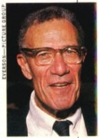
Coming in the year of *glasnost,* Brodsky's Nobel raises the intriguing question of whether he might someday be invited to visit home. Although he never married, he has a son in the Soviet Union whom he has not seen in 15 years. In a sense, though, Brodsky has never left Russia. Its language shapes his thought, and its landscape glitters throughout his poems: "I was raised by the cold that, to warm my palm,/ gathered my fingers around a pen." —***By Paul Gray***

ECONOMICS

If the Royal Swedish Academy of Sciences intended to signal its disapproval of the Reagan Administration's economic programs, it could not have picked a better week to do so, or a better man to deliver the message. Robert Solow, 63, who last week won the 1987 Nobel Memorial Prize in Economic Science, is a liberal academic who has never hidden his disdain for Reaganomics. And when the Brooklyn-born professor at the Massachusetts Institute of Technology stepped before the cameras to acknowledge his award, he needed little prompting to lay into the policies that led to last week's crash. "The best thing you can say about Reaganomics," he asserted, "is that it probably happened in a fit of inattention."

Solow is a leading advocate of government intervention to correct the natural imbalances of the marketplace, a strategy that has fallen into disfavor under this Administration. He won his prize for a pioneering 1956 study demonstrating that the rate of technological progress does more to determine an industrialized country's growth than the size of its labor force or its investments in new factories or equipment. Solow's "theoretical model had an enormous impact on economic analysis," said the academy's statement. In the years since then, governments around the world have taken his lesson to heart. The revolution in jet aviation and the computers of Silicon Valley can be directly linked to government policies that steered money into technological research and development. "I am delighted," commented 1973 Economics Laureate Wassily Leontief. "He represents the best of our profession."

As senior economist on the staff of the Council of Economic Advisers in the early 1960s, Solow helped shape the interventionist policies that dominated the Kennedy and Johnson years. He has never lost his taste for mixing it up in the public economic debate. An engaging speaker, he is also one of the few economists who can write good English. His popular essays and book reviews leaven economic analysis with a dry, cutting wit. "Only someone with a sense of humor could survive reading this book," he began a review of George Gilder's *The Entrepreneur as Hero* in the *New Republic.* "And no one with any trace of a sense of humor could have written it."



EVERSON—PICTURE GROUP

Solow

When not teaching, Solow and his wife Barbara, an economic historian at Boston University (they have two grown sons and a daughter), divide their time between a waterfront condominium in Boston and a summer house on Martha's Vineyard. At the Vineyard, a 24-ft. sailboat is Solow's primary passion. He plans to use part of his $340,000 Nobel Prize money to equip the boat with a new Genoa jib. "I've been just a poor academic up to now," he says, noting that the value of his only other major asset, his share of the M.I.T. pension fund, was reduced in last week's debacle. But some good may yet come of the Crash of '87, he says, if it lessens the flow of bright graduate students to investment banks. "It may make engineers out of some yuppies," he smiles. "Sweet are the uses of adversity." —***By Philip Elmer-DeWitt. Reported by Lawrence Malkin/Boston***

“This is the last time I’m taking static from a second class phone.”

Bzzzzzzz. C-r-a-c-k-l-e. Huh?

On a bad phone, even simple conversations get complicated.

Which is what lots of people discovered when they got phones *not* made by AT&T. They’ve had problems hearing. Problems dialing. Even problems getting their problems fixed.

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You’ll get phones that sound right, work right, and keep on doing both for years.

And when you choose AT&T Long Distance, you’ll get the most advanced and reliable network in the world. No one beats AT&T’s clear sound quality. Or puts your calls through as fast.

When it comes to making conversation what it should be, AT&T is still the right choice. You get what you pay for.

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The Grand Maximalist

Frank Stella brings new life to abstract painting

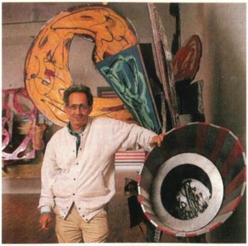
Frank Stella is 51 this year, too old to be a prodigy but still young for an artist, and his second retrospective at the Museum of Modern Art in New York City—consisting of work done since 1970, the year of his first one—has just opened. He is one of the very few American artists to get this double crown in their lifetime, thanks to the enthusiasm with which William Rubin, MOMA's director of painting and sculpture, views his work. It is hardly an exaggeration that MOMA treats Stella as Jackson Pollock's true dauphin in the lineage of American abstract painting.


WALKER ART CENTER, MINNEAPOLIS. PHOTO BY TED THAI

***Loomings*, 1986, in the current Stella retrospective at the Museum of Modern Art**

Is he that good? Not quite, but to fall short of such a comparison is still to achieve something. Stella is a pictorial rhetorician on the grand scale, and nobody who cares about the fate of abstract painting today could chew through this show—cramped and arrhythmic though its installation is—without being deeply moved. Just as Lucian Freud's exhibition at the Hirshhorn Museum in Washington shows up the dinginess of most American figure painting in the '80s, so Stella's fearless panache and the profusion of his output refute the common idea that the possibilities of abstract painting are played out. From the fascist lugubriousness of early striped paintings like *"Die Fahne hoch"* to the galvanic dance of fake-shadowed solids in the Cones and Pillars series of the '80s, from the decorative pastelly flatness of the late-'60s Protractors to the wave of polished aluminum, gray as sea fog, that swells across the wall of MOMA in a magnificent piece with the Melvillean title of *Loomings*, 1986, Stella wrings more pictorial feeling from abstract art than anyone else alive. His big paintings, when they come off, are almost unique in their confidence: they project a sense of grandeur rather than the usual American inflation of scale. They are also marked by their will to confront, to deal their aesthetic cards face up, as plainly as possible.

Nobody who saw them in the early '60s can forget the impact of Stella's first "minimalist" works, the black-stripe paintings, done when he was in his 20s and just out of Princeton. One is apt to think of abstract artists' careers beginning in complexity and ending in reduction with the wisdom of age, like Mondrian's. Stella, so far, has inverted this: he started out polemical and bare, but has complicated his art to the point of apoplexy. Episode II, in which our hero goes nuts in the tropics, battles with spotted fluorescent snakes but does find El Dorado, opens with a group of eccentrically geometrical wall reliefs done in 1971-73. They were inspired by photos of the wooden architecture of Polish village synagogues obliterated in World War II. They were essentially constructivist, based on the relation of parts rather than (as in his earlier work) the repetition of units. They looked complex, clean and rather dull, and one could not have deduced from them the stylistic convulsion Stella was readying.


MARIO RUIZ

The artist with *The Decanter*, 1987: mental horsepower

How to go nuts in the tropics yet find El Dorado.

By 1975 Stella was convinced that abstract painting, for its own survival, would have to take practical lessons from old masters like Rubens and Caravaggio; it must find an "independent pictorial space to establish its ties with the everyday space of perceived reality." This ran counter to the whole argument of American formalism—and of the movement with which his early black, aluminum and copper stripes had been associated, minimalism—which strove to isolate the space of pictures from that of the real world. The results were a set of brilliantly colored oblique reliefs, the Brazilian paintings of 1974-75, followed by the Exotic Birds in 1976-80: images so unexpected that Rubin is right in calling them not just a stylistic twist but the start of a second career.

For Stella now took the minimalist obsession with fabrication (as distinct from handmaking) and used it to carry all that was maximal: sweeping gestures, textural scribbles, hot collisions of color, a romantic sense of barely sustained cohesion. But Stella's "new look" of spontaneity was itself a kind of theatrical fiction. The pragmatic essence of the early paintings lies not far below the gesticular surface of his work after 1975. Nevertheless he was putting himself at some risk. His new paintings, as they got loopier and more baroque, looked like a critique of the high cool and decorous

lyricism that had become the twin poles of American abstraction. "Somehow painting today," he would write later, "especially abstract painting, cannot bring itself to declare what Caravaggio and Rubens demonstrated again and again—that picture building is everything."

Up to the late '70s his reliefs had stretched the conventions of relief without really departing from them: they had a flat solid background plane from which the bright templates sprouted as figures on a ground, and however "wild" the color seemed, it was always anchored within the coordinates of collage or, at least, given the enormous size of pieces like *Inaccessible Island rail*, 1976, of screw-bolt-and-bracketage. Stella's 3-D paintings all descend from constructivism, and one soon realizes that they mark the end of its tradition with a barrage of fireworks: there is something funereal as well as celebratory about the sight. It seems improbable that anyone (other, perhaps, than Stella) will manage to wring more from the constructivist impulse. If you want to see the common ancestor of these frenetic and space-grabbing objects, it is upstairs at MOMA, a little thing of rusty tin: Picasso's 1912 *Guitar*. Thinking about Picasso, Stella had come to realize that "it's not the presence of a recognizable figure in Picasso that in itself makes things real, but his ability to project the image and to have it be so physical, so painted."

Stella had to kick free of the literal basis of color-field painting; the flat color on a flat plane, the "dictatorship of the medium," had killed off the project of making abstract forms that, by moving in deep pictorial space, reawakened one's sense of the body. His way of doing this, in paintings from the Indian Birds series like *Rām gangra*, 1978, was to get rid of the solid back plane and replace it with a mesh support, so that the shapes seemed to hang in the air. The relatively sedate movement of form in Stella's earlier work became an agitated, dense array, and the vividness of color seemed to have gone over the edge of decorum: a demotic yawp of rose, cerise, blue, sulfur-yellow, greens and oranges, scribbled and slathered onto the baroque shapes of French curve and drafter's template, and heightened with jarring patches of colored glitter.

Not long afterward, the vogue for graffiti would release floods of glitzy dreck that shared the same eye-grabbing fervor. Indeed, both were grounded in the same area, a sense of common life, but only Stella was able to make it work aesthetically. Those who think abstract art should betoken "spirituality" are bound to be put off by the materialist cast of mind that lends its here-and-now toughness to even the most florid of Stella's works. Relentlessly inventive, marred only by the glaring, grinding overcomplication of some of his pictorial machines, he is a paragon of mental horsepower. His show affirms that no painter need be the prisoner of the ends of art history. —*By Robert Hughes*

Press

Annoying, Appalling . . . Hilarious

Spy magazine draws blood from the stony Big Apple

There were two possible explanations for the high head count at the first-anniversary party *Spy* magazine tossed for itself at its downtown Manhattan office building a few weeks back: an open bar and fear. Show up, smile, and stay on *Spy's* sunny side, and maybe you won't appear in some future issue, pinned down photographically on the "Party Poop" page and identified, with the magazine's characteristic cheekiness, as a "mummified boulevardier" or "beaver-faced mogul."


MARIO RUIZ

"Semi-Thick" Editors Carter and Andersen

Rewards for the wicked and brash.

Since its debut issue last October, *Spy* has honed its unique editorial combination of good humor and bad manners into an upscale switchblade that has nearly doubled circulation: Publisher Thomas Phillips Jr. expects it to hit 50,000 in time for Christmas. Success seems to have come in direct proportion to the magazine's nastiness. The current "gala, semi-thick anniversary issue" has more ads than ever bolstering a cover story on "The *Spy* 100," a pointed and often hilarious conscription of the "most annoying, alarming and appalling people, places and things in New York and the nation." (Ivan Boesky and the incumbent President grab the top slots; Dwight Gooden and blackened redfish finish in the bottom six.)

Editors Kurt Andersen, 33, and E. Graydon Carter, 38, nurtured the idea for *Spy* in 1984, over lunch hours away from their writing jobs at Time Inc. Carter, who worked at LIFE, wanted an editorial voice "engaged in real life, that is wicked and adversarial at the same time." Andersen, who still moonlights as a TIME contributing writer, thought "it would be fun to have a forum that could be your sandbox." Together they produced a list of 100 possible articles and features, which Phillips, 32, used to attract start-up money: an initial \$1.5 million, followed by another \$1.5 million this July.

Happily acknowledging a "certain amount of scabrousness," Andersen says they are trying to develop the "hybrid of a comic point of view and journalistic reportage." To that end, Carter adds, "we decided to make the magazine all fact, rather than parodies and funny stories." Fact checkers (two full time, three part time) make sure a story's aim stays true, while a lawyer vets each story in case some society wives take umbrage at being characterized as "Overage Debs from Hell." There have been no libel actions to date.

Carter chose the magazine's name (Spy was the nom de plume of an illustrator for the old British *Vanity Fair*, as well as a snoopy, brash newsmagazine parodied in *The Philadelphia Story*), but the prevailing tone of backhanded derision and inside irony is borrowed from Britain's *Private Eye* and strongly influenced by television, especially David Letterman and the gonzo irreverence of vintage *Saturday Night Live*. A few *Spy* articles sputter like misbegotten skits, but increasingly pieces like "Rupert Murdoch's Screwball Search for Josef Mengele" and J.J. Hunsecker's pseudonymous column about low doings at the New York *Times* have piquant information as well as good punch lines.

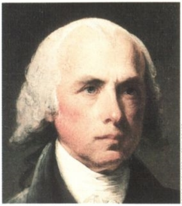
Right now *Spy* draws 80% of its circulation from the New York City area, but Andersen talks about tapping an "urban sensibility that goes beyond the city limits." The magazine is already available in 26 cities coast to coast, and the staff is working up a pilot for a possible half-hour series next fall on ABC. Meantime, there are growing indications that *Spy* is drawing blood from its target audience. A flack for the "churlish dwarf billionaire" Laurence Tisch was moved to call the editorial offices and point out, "Look, Larry is not technically, medically, a dwarf." Next issue, the technicality was duly noted, with appropriate sarcasm. *Spy* is not the kind of magazine ever to get hung up on a technical foul. —*By Jay Cocks. Reported by Naushad S. Mehta/New York*

The best way to protect the Constitution is to understand it.


DAVID SHARPE

Washington's ink-stand

On September 18, 1787, the day after the delegates had put their signatures to the final draft of the Constitution in Philadelphia, Washington wrote to Lafayette: "It is the result of four months' deliberation. It is now a child of fortune, to be fostered by some and buffeted by others. What will be the general opinion, or the reception of it, is not for me to decide; nor shall I say anything for or against it. If it be good, I suppose it will work its way; if bad, it will recoil on the framers." ☐ Today, after 200 years we celebrate what has come to be the oldest working Constitution in the world, a unique charter in which the people empower their government, and create the laws by which they shall live. This "child of fortune" was conceived out of argument and compromise; its framers representing 12 separate states, each fiercely protective of their own fortunes and future. Although different in manners, circumstances and prejudices, the delegates together wrote a system of government unlike any in history. None suggested that the document was perfect. Indeed, most of the authors acknowledged its imperfections. They, like Washington, were not to know the durability of their ideas or the strength of their words. ☐ Despite a Civil War and two centuries of vast social change, the Constitution as it was originally designed continues to guide, protect, and preserve our country. James Madison, the man most responsible for the shape and substance of the Constitution, was to say in later years: "Every word . . . decides a question between power and liberty."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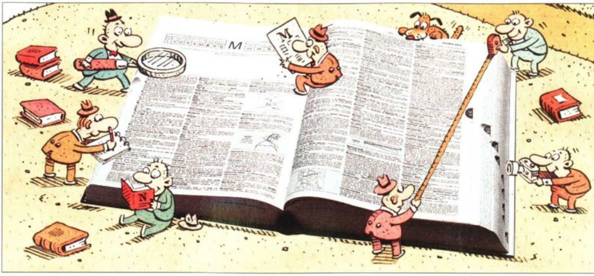


ILLUSTRATION FOR TIME BY ELWOOD SMITH; PHOTOGRAPH BY JAMES KEYSER

Surveying the State of the Lingo

THE RANDOM HOUSE DICTIONARY OF THE ENGLISH LANGUAGE: SECOND EDITION, UNABRIDGED *2,510 pages; $79.95*

Hopefully, you no longer object to sentences that begin with the modifier hopefully. If you do, forget it; the battle is lost. On the other hand, if you still insist that infer and imply mean two different things, hang tough, despite accusations of being a word prig; this is one the word prigs could win. As for the plural-singular identity crises suffered by words like data and media, stand by; they could go either way.

Such are some of the bulletins to be gleaned from the second edition of the unabridged *Random House Dictionary of the English Language.* "A storehouse and mirror of the language," is how Editor in Chief Stuart Berg Flexner describes the new dictionary, and with its 315,000 entries, the twelve-pound volume amply lives up to the billing. Along with the publication, between 1972 and 1986, of four fat folios supplementing the *Oxford English Dictionary,* this is the most important dictionary venture since 1966, when Random House's first edition appeared.

The present volume (destined, according to its own news releases, to be called *RHD-II*) is not so comprehensive as the dominant publication in the unabridged category, *Webster's Third New International Dictionary* (1961), which has more than 450,000 entries and is generally more thorough and dense with examples. But *RHD-II* is an eminently practical, everyday reference: it is typographically crisp, its definitions are clear and brief (sometimes to the point of spareness), and it offers some features that *Webster's* lacks, including the dates when words entered the language and pronunciation and etymological guides at the foot of its pages. Above all, it is up to date. Placed side by side with its progenitor, *RHD-I,* it provides the best opportunity in a generation to survey the state of the lingo and to chart its recent changes.

The most prominent change: explosive growth. *RHD-II* contains 50,000 new entries, most of them words that have come into use since 1966. The field of business and finance has contributed its share (greenmail, golden parachute), as have science and technology (string theory, user friendly), government (disinformation, -gate as an all-purpose suffix for scandals), social trends (yuppie, underclass) and relations between the sexes (significant other, palimony).

Many other additions are the result of old words taking on altered meanings. *RHD-II* includes 75,000 new definitions reflecting this process. Where a mole in 1966 was mainly an animal, now it is also, thanks to John le Carré, a spy who burrows into the enemy's bureaucracy. A window is not only something to gaze out but also an interval during which rockets can be launched or any opportunity seized. And in addition to all its other 1966 meanings, like has become an interjection, breaking out like acne all over adolescent speech, as in, "It's, like, ubiquitous."

The tidal shifts in public attitudes that have taken place in the 21 years between the two Random House editions have left their mark. Novels, films and even White House tapes have brought expletives into more common currency, so that terms are now used at cocktail parties that once might have shocked a longshoreman. *RHD-I* listed only the lesser of the two most familiar four-letter words. *RHD-II* adds the ultimate one. At the same time, *RHD-II* is, compared with its predecessor, a monument to feminist consciousness-raising. Mankind never appears in its definitions where people is meant, nor is anyone of unknown gender ever a he. Its manual of style, at the back, exhorts the reader to "use gender-neutral terms wherever possible."

RHD-I happened to debut in the midst of the fiercest lexicographical debate of the century. *Webster's* third edition had appeared five years earlier and howls of protest were still resounding. *Webster's* editors, in the name of scientific objectivity, had largely abandoned the role assumed by dictionary makers since Dr. Johnson's day: serving as a guide to usage and attaching warning labels such as colloquial, erroneous and illiterate to words that deserve inclusion but not endorsement. To Philip Gove, *Webster's* then editor in chief, such discriminations were "artificial notions of correctness or superiority," and he wanted no part of them. A dictionary, he wrote, "must be descriptive and not prescriptive." In this he spoke for the dominant school of modern linguistics, which abhors the very idea of setting standards as snobbish, authoritarian and downright undemocratic. Gove's approach led, in one notorious example, to *Webster's* assuring readers that ain't was "used orally in most parts of the U.S. by many cultivated speakers."

One immediate appeal of *RHD-I* was that it aimed at what its editor in chief, Jess Stein, described as "a linguistically sound middle course." It too was descriptive, but one of the things it took care to describe was "the attitudes of society toward particular words or expressions." Ain't, in the dictionary's no-nonsense view, was to be "shunned by all who pre-

Books

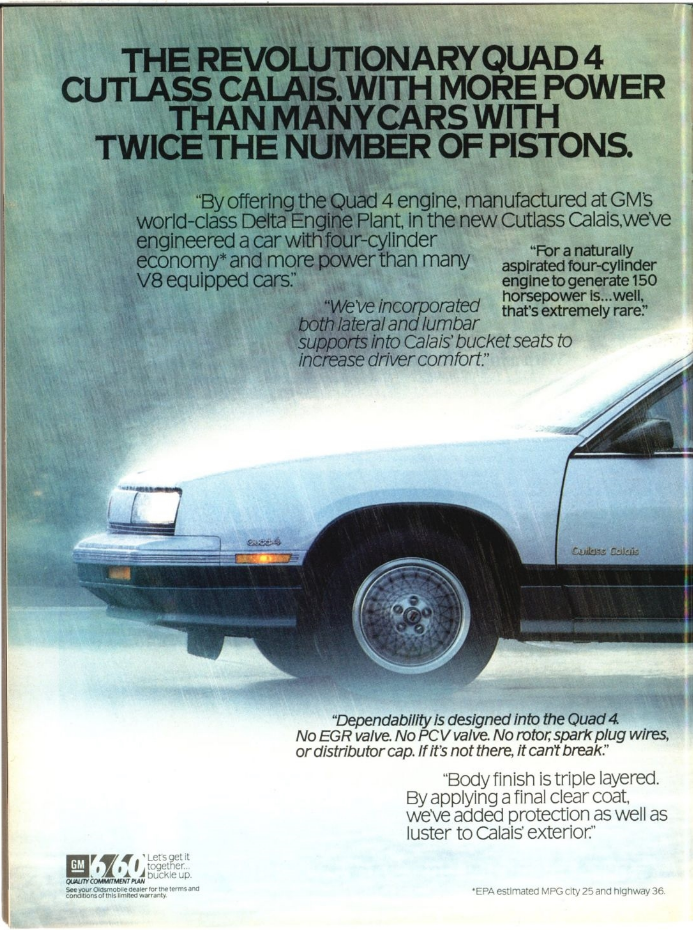
fer to avoid being considered illiterate."

With *RHD-II*, unfortunately, that middle course appears to be swerving back toward *Webster's*. The new dictionary sees words against the background of "standard English," but its definition of standard is governed by majority rule. It acknowledges disputes where they exist, but it refuses to legislate usage. Hence where *RHD-I* drew a distinction between disinterested (impartial) and uninterested (indifferent), *RHD-II* smudges the line: "many object," it concedes, but the use of disinterested to cover both meanings is "well established." Similarly, *RHD-II* is more lax than its forerunner in allowing such dubious usages as transpire to mean occur (rather than emit), and fortuitous to mean happening by lucky chance (rather than at random). Only when an embattled meaning has enough vociferous supporters does *RHD-II* back off, as in the case of infer. It accepts the word both in its regular meaning (draw a conclusion) and as a synonym for imply (suggest), but also grants that the distinction between the two words "is widely observed."

In matters of grammar, everyone can now do their own thing—or so *RHD-II* argues in a note that endorses using their with a singular antecedent like everyone, something that was "nonstandard" in *RHD-I*. Hopefully seems a hopeless cause, a butterfly of an adverb that has turned into the caterpillar it-is-to-be-hoped, which *RHD-II* proclaims "fully standard." And because many people wrongly consider the past tense of sneak to be snuck (instead of sneaked), the word has been promoted from "chiefly dialect" in *RHD-I* to full respectability here.

Data and media were plurals pure and simple in *RHD-I*; the new edition advises that data can be either singular or plural, and media as a singular has become common in, of all places, the media. Another favorite media word, kudos, has undergone an even more perplexing transformation. Originally a singular meaning praise or glory, it has been misconstrued so often as a plural that, by a process lexicographers call back-formation, it has spawned a synthetic singular. Sure enough, here it is with its own entry in *RHD-II*: kudo. What next? Will a single instance of pathos be called a patho?

In the end, of course, all these matters will be settled by the heedless masses of people who rarely look at dictionaries, much less write them; that is the way of linguistic evolution. So is there any point in resisting changes that may be inevitable? Yes, indeed, as the late poet and translator John Ciardi eloquently argued. "Those who care," Ciardi wrote, "have a duty to resist. Changes that occur against such resistance are tested changes. The language is the better for them—and for the resistance." It is regrettable that *RHD-II* resists so little. But it is admirable that it erects such a splendid arena in which to carry on the struggle. —***By Christopher Porterfield***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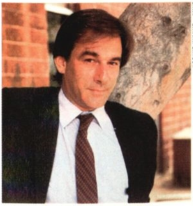

BARR—GAMMA/LIAISON

Ignatius: the coherence of make-believe

Enchanted City

AGENTS OF INNOCENCE
by David Ignatius
Norton; 444 pages; $17.95

Question: Name a new book by an editor of the Washington *Post* dealing with the subject of the Central Intelligence Agency. Hint: Bob Woodward's much ballyhooed *Veil,* an exposé by the renowned Watergate reporter of the deeds and alleged confessions of the late director William J. Casey, does not count. Reward: those who come up with the correct answer can settle down to read an uncommonly informative and intriguing espionage thriller.

Agents of Innocence, a first novel by Washington *Post* Associate Editor David Ignatius, demonstrates an admirable flair for transcribing screaming headlines into plausible matters of fiction. Before he joined the *Post* in 1986, Ignatius, 37, spent three years during the early 1980s as Middle East correspondent for the *Wall Street Journal.* Among the many events he witnessed was the continuing demolition of civilized life in Lebanon by indigenous sects and fractious neighbors. Having reported parts of this complex and in many ways preposterous story, Ignatius has now set about lending these experiences the coherence of make-believe.

The plot gets rolling in the fall of 1969 when an idealistic young CIA agent named Tom Rogers reports for duty in the "enchanted city" of Beirut. "It was a city of confluence, where two cultures—East and West—met to produce a steaming and sensuous vortex, like the collision of two ocean currents." The only shadow on this idyllic scene is the restive presence of the Palestinians, and keeping tabs on them and their leaders becomes Tom's job. Before long he establishes a tenuous contact with Jamal Ramlawi, a handsome, brooding young man reputed to be a rising star in the largest guerrilla organization. Jamal refuses to spy directly for Rogers and the CIA, but he does offer liaison, a system of sharing information between his organization and the U.S. Rogers' superiors back in Washington dislike this arrangement but eventually accept it in the absence of anything better.

Problems, of course, ensue. The CIA director notes the "mess" that will occur "if the Israelis find out that we're running an agent at the top of the P.L.O." Furthermore, Rogers and his colleagues in Lebanon slowly discover themselves embroiled in a game with no recognizable rules. After a possibly dangerous mission early in his tenure there, Rogers remarks, "Nobody in the Middle East would dare harm a representative of the United States." This is before the car bombs start blowing Beirut apart.

Agents of Innocence contains all the detailed local color and technical arcana that the thriller genre demands. Ignatius can convey the terror even an experienced spy feels when approaching isolated border crossings and potentially murderous guards. He can explain how to construct a remote-control detonator and how to gauge the damage of a terrorist blast by sight alone: "White smoke meant a very large explosion. A bomb that detonated so powerfully and quickly that it sucked the oxygen out of the air, leaving a white plume of smoke." The author also occasionally strains a little too hard to keep pulses racing. Hearts pound in chests "like a hammer against an anvil." Women have a habit of showing up not simply undressed but "completely naked."

But this novel has something more on its mind than escapist entertainment. The fates of Rogers, Jamal and a sizable cast of supporting players are meticulously connected to the larger forces that are tearing a society to shreds. Although the CIA and its people make mistakes, they are not the villains of the piece. Rogers' innocence rests in his belief that he and his country can apply reasonableness and common sense to a situation they do not understand. History does not bear out that assumption, and neither does this disturbing novel. —***By Paul Gray***

Editors' Choice

FICTION

THE BOYS OF WINTER, *Wilfrid Sheed*
THE CHILD IN TIME, *Ian McEwan* • FIRST LIGHT, *Charles Baxter* • LEAVING HOME, *Garrison Keillor* • OUTLAWS, *George V. Higgins* • A SOUTHERN FAMILY, *Gail Godwin*

NONFICTION

CONSPIRACY OF SILENCE, *Barrie Penrose and Simon Freeman* • IN SEARCH OF MELANCHOLY BABY, *Vassily Aksyonov*
MAN OF THE HOUSE, *Tip O'Neill with William Novak* • THE MAKING OF THE AFRICAN QUEEN, *Katharine Hepburn*
MIAMI, *Joan Didion* • THE SONGLINES, *Bruce Chatwin*

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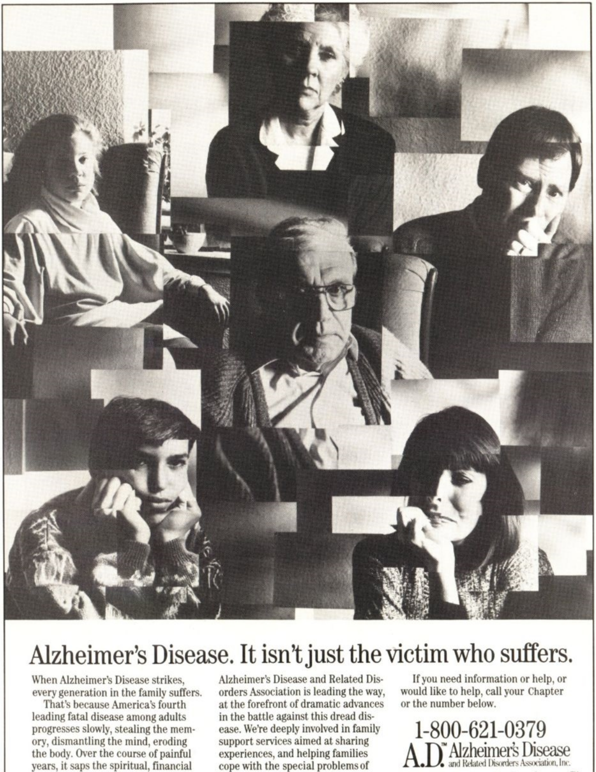


Theater

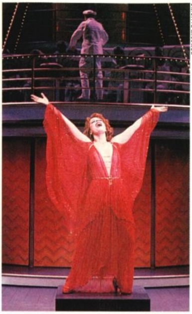
The Way They Used to Make 'Em

Two musical revivals bring some good old pizazz to Broadway

Broadway has been aching for years for a splashy, razzle-dazzle, old-style American musical. Last week the main stem got its wish—not once but twice. The only hitch: *Cabaret* dates to 1966 and *Anything Goes* to 1934. So their joyous returns do not prove that theater people know how to make 'em like they used to. What these revivals do display is a corps of talented Yanks who can design, direct, choreograph and perform with all the panache and pizazz of the Britons who of late have dominated the musical stage.

Anything Goes begins and ends—in this production, literally—with Cole Porter, whose extraordinary score is the one reason to bring back this sweetly silly show. As the lights dim, his reedy voice is heard intoning the title tune. At the curtain, after a pleasure cruise through the likes of *You're the Top, Friendship* and *It's Delovely* (the latter two lifted from other Porter shows), a giant lighted-up portrait of the composer-lyricist, who died in 1964, descends to smile benevolently.

If Porter really were to lend approval, it would be chiefly for Patti LuPone. As Nightclub Belter Reno Sweeney, she rivals the role's originator, Ethel Merman, in volume and clarity of voice, and far outdoes her in intelligence and heart. Co-Star Howard McGillin has shirt-ad looks, puppyish charm and a lilting tenor. Other delights: Tony Walton's Art Deco ocean-liner set, Paul Gallo's seascape lighting and Michael Smuin's crisp choreography. The supporting cast is mostly ordinary, and Kathleen Mahony-Bennett's oomphless ingenue is not even that. The book, by P.G. Wodehouse and Guy Bolton but revamped before the 1934 opening by Howard Lindsay and Russel Crouse (*Life with Father*), has been timidly updated by John Weidman and Crouse's son Timothy. It is still so stale and inane that it wheezes of summer stock. But the difference between Porter and other composers remains—well, night and day.


BRIGITTE LACOMBE

Volume and heart: LuPone in *Anything Goes*

Cabaret has to compete not only with the memory of its first production, which won eight Tony Awards, but with Bob Fosse's 1972 film adaptation, which many critics rank as perhaps the best movie musical of all time. Hal Prince's fluid, expressionistic staging has been so widely imitated that even its slyest devices seem clichéd. Although the show's political anthems and music-hall satires throb with emotion, its love ballads are mostly lame—a weakness that has been heightened by Joe Masteroff's miscalculated rewrite of his own book. Clifford (Gregg Edelman), the American novelist who arrives in Berlin as the Nazis are coming to power and through whom the story is told, is now unmistakably homosexual. His affair with the hoydenish singer Sally Bowles (Alyson Reed) has no chance of changing his orientation. Thus his fate no longer rests in her unsteady hands, and when she aborts what may be his child, she has not thwarted a lasting romance.

Yet the show overleaps these obstacles to deliver entertainment of shocking power and perverse pleasure. Where *Anything Goes* laughs off the financial turbulence of the early 1930s—its plot involves a stock-market mistake that engenders a fortune—*Cabaret* dwells on the ugliness brought out by that era's economic panic. Neighbors turn into enemies. A hymnlike melody subtly alters into a fascist anthem. Leering and strutting and cackling over all is Joel Grey, reprising the performance that won him a Tony and an Oscar, as the emcee luring visitors into a nightclub—and a nation—succumbing to political insanity. At these moments, *Cabaret* seems as daring and relevant as a stage musical can get. —***By William A. Henry III***

Milestones

TICKETED. Fawn Hall, 28, the blond, ultraloyal former secretary to Lieut. Colonel Oliver North who became a celebrity last June at the Iran-*contra* hearings; for eating a banana on a Washington subway platform. Hall, who told the congressional panel that "sometimes you have to go above the written law," finished off a small piece of the fruit after a transit officer told her to stop; that was enough for a citation and what she describes as an embarrassing public reprimand. She faces a maximum penalty of a $300 fine or ten days in jail.

SENTENCED. Bernhard Goetz, 39, to six months in jail for carrying the illegal, concealed handgun he used to shoot four black teenagers who demanded $5 from him in a subway car in December 1984; in New York City. The Subway Vigilante was also ordered to pay a $5,000 fine, undergo psychiatric treatment and perform 280 hours of community service. He remains free pending an appeal.

DIED. Jacqueline du Pré, 42, British cellist whose brief but brilliant concert career was extinguished when she was stricken by multiple sclerosis; at home in London. Her love affair with the cello began at age four, after she heard a radio concert and asked her parents for the "thing that makes that noise." Her mastery of that thing astonished even such mentors as Pablo Casals and Mstislav Rostropovich, who said of his student, "I have found somebody to carry on my work." Du Pré married another musical prodigy, Israeli Conductor-Pianist Daniel Barenboim; together they packed concert halls across Europe and North America.

DIED. Andrei N. Kolmogorov, 84, preeminent Soviet mathematician and a developer of modern probability theory; in Moscow. Kolmogorov, who once said that "mathematics begins where common sense leaves off," earned international recognition for his work in logic, cybernetics and hydrodynamics. During World War II, his equations on predictability and randomness were used to develop techniques for planes seeking to land on the heaving decks of aircraft carriers.

DIED. Philip Levine, 87, physician and codiscoverer (with Dr. Karl Landsteiner and Dr. Alexander Wiener) of Rh factors that distinguish different types of human blood cells; in New York City. Levine's pioneering research as an immunologist and hematologist in the 1930s and '40s helped identify and then eliminate Rh hemolytic disease, caused when a mother's Rh-negative blood destroys the red blood cells of her Rh-positive fetus, resulting in miscarriage or severe birth defects, including mental retardation.

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People

FERRY—GAMMA/LIAISON

Satchmo session: Farmer, Gillespie, Marsalis and Terry

His beaming face and soaring trumpet riffs were known to millions, but even music historians might be surprised to learn that **Louis Armstrong,** who died in 1971, was also a zealous jazz archivist. That fact came to light last week, when the executors of Armstrong's estate donated a 30-year treasure trove of recordings, correspondence and photographs to Queens College and held a special trumpet tribute to the jazz great in the garden of his Queens, N.Y., home. On hand were such jazz talents as **Wynton Marsalis, Dexter Gordon, Dizzy Gillespie, Art Farmer** and **Clark Terry.** "He was a genius and innovator without parallel," said Marsalis. "If jazz was a river, Louis Armstrong was the source," said Farmer. But the hornmen probably said it best with an ensemble session that began with *West End Blues* and ended with a stomping rendition of *When the Saints Come Marching In.*

HEMSEY—GAMMA/LIAISON

Pavarotti: light opera singer

■

"Around six or seven years ago, I caught the passion for horseback riding," recalls Tenor **Luciano Pavarotti,** "but I had to stop because it was getting uncomfortable. My legs were complaining—and the horse was complaining." These days opera's superstar is back in the saddle again, thanks to a stringent low-fat diet that has scaled down his formidable bulk by an impressive 85 lbs. Pavarotti won't reveal his upper limits, but when he dropped by New York City's Carnegie Hall last week, he was exuberant. "I feel ten years younger than last year," he said. "I think it was very bad to have such a big body." One of the professional fringe benefits of losing weight is that Pavarotti will be able to play Manrico, the bellicose Gypsy chieftain in Verdi's *Il Trovatore,* with greater aplomb when the production opens at the Metropolitan Opera next month. Says he: "I want to be more agile on the stage and in life." He stands to get an ovation on both counts.

■

Her smashing debut as Lynda, the randy English lass in *Wish You Were Here!,* conquered Cannes and caused a sensation in her own country, but for Actress **Emily Lloyd,** the real action is in America. "I love it there!" exclaims Lloyd, 17, who lives with her parents in London. "I'm quite loud and open, and I speak before I think, so I guess I'm quite American anyway. I'd like to live in the States someday." She may soon get the chance. Lloyd has signed a three-picture deal with United Artists and also plans to begin making a film for an independent production company next June in the Midwest. The part calls for a girl who is "foul-mouthed, but not sexual the way Lynda was." Or even English. "American mannerisms and attitudes are so different," she observes. So far, the Americanization of Emily has included working with a voice coach and "learning all the words: radical, neat-o, totally cool, awesome, bogus. Is that O.K., dude?" Just fine, babe.

SCHAPIRO—GAMMA/LIAISON

Lloyd: an all-American girl?

■

Swirling in silk or prancing in jeans, she had a gamine appeal that fired the imagination of a generation of women, including the young **Jacqueline Kennedy,** who adapted her classy, bubbly style to burnish Camelot. Thirty-five years after *Roman Holiday* made her a star, **Audrey Hepburn,** 58, continues to dazzle. Last week she left her home near Geneva, Switzerland, to make a rare public appearance at a benefit tribute in her honor at New York City's Museum of Modern Art. Emceed by her *Holiday* co-star **Gregory Peck,** 71, the evening featured clips from such Hepburn classics as *Breakfast at Tiffany's* (1961) and *My Fair Lady* (1964). "Only the magic of movies can show how we were," she told the audience afterward, "our history and our spirit—our dreams." Hepburn, who was accompanied by her son, Actor **Sean Ferrer,** 27, coyly parried a question about her favorite leading man by saying, "How can you ask me to compare Gary Cooper to Gregory Peck?" Peck was less equivocal. "She had an inner glow that could only come from an inner glow," he concluded. "She is high chic and high spirit." And, of course, high cheekbones.

OSCAR ABOLAFIA

Peck, Hepburn and Ferrer at MOMA tribute

—By Guy D. Garcia. Reported by David E. Thigpen/New York

Sport

Series Heroes Require Introductions

Right up to the end, there was no place like home

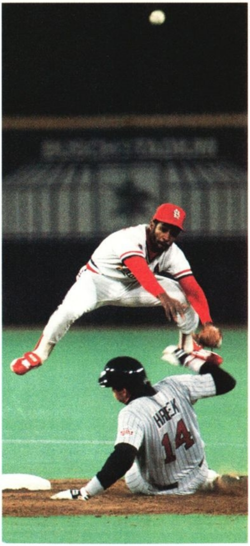
In an inspired pairing, St. Louis assigned Stan Musial and Moe Drabowsky last week to throw out a first ball at the World Series, something to do with their being Polish. Musial was and is a natural. When Missouri first heard that a Polish Cardinal had been elected Pope, most folks presumed it was Stan. But the selection of Drabowsky showed an instinct befitting the best baseball town in America, an affection for October strangers.

With almost any team you can name, not just the Cardinals, Drabowsky was a relief pitcher in the '60s famous for his sense of humor and a proclivity for charging long-distance calls to the bullpen telephones. Retiring to a brokerage, he wrote a book titled *Everything I Know About the Stock Market,* filled with empty pages. Just last week he thought of adding a chapter. But on an unlikely afternoon in 1966, Drabowsky turned into the sort of World Series hero Dan Gladden and Tom Lawless have just become, not to mention Al Weis, Al Gionfriddo and a lot of ordinary Als from the past that Ring Lardner could not have invented.

Every year the World Series comes as a surprise. In Drabowsky's year the Koufax-Drysdale Dodgers were supposed to sweep the Baltimore Orioles, but they got swept instead, with Moe striking out six in a row. This year first the Cardinals were expected to overwhelm the Twins, then the Twins were poised to obliterate the Cardinals. The reverse happened in turn. A grand-slam homer from a lead-off hitter like Minnesota's Gladden qualifies as a marvel, but the home run later hit by Lawless was a miracle.

A third-string catcher who sat around St. Louis all season without chipping in so much as one RBI, Lawless evened the series with his mighty blow in Game Four off the winner of the opener, Frank Viola. "You can see it in their eyes," Viola had said of his teammates, who twice chose the fourth inning on their way to a thumping 10-1 and 8-4 start at home. "The trouble is, I've seen it in other teams' eyes too." Of course it was the fourth inning when Lawless, the .080 hitter, stood at home plate with two on beholding the left-field fence like a man seeing Shangri-la before the recent riots. The ball barely skimmed over.

The first Cardinal out of the dugout to congratulate him was Pitcher Ken Dayley, a moment of pure poetry. The only other homer Lawless ever hit in the big leagues, some three years ago, was off Dayley. To press the point, with the bases loaded in the seventh inning, Dayley came in to save the game. This may be stretching poetry a bit far, but that is the World Series. For the way he marshals the forces of Vince Coleman, Ozzie Smith and Curt Ford, Manager Whitey Herzog is celebrated as a thinker. ("The game of baseball's been awful good to me ever since I stopped trying to play it.") But the older Cardinals manager, Coach Red Schoendienst, still likes to flutter his fingers at the opponents in a tried-and-true hex. Something was working. With bunts, balks and stolen bases, the Cardinals finished a three-game sweep on their own plastic turf (3-1, 7-2 and 4-2) to assume a one-game lead.



JOE DI MAGGIO

Smith launches past Hrbek for a fourth-game double play
The teams were taking turns, one over the other.

Taking lessons in stoicism from Rookie Manager Tom Kelly, Minnesota was inclined to regard it not as a crash but as a correction. From the July All-Star Game to the October playoffs, Gary Gaetti, Kent Hrbek and Kirby Puckett brought all their muscle to bear, and still the Twins won just nine away games. For that matter, the last time the franchise managed a World Series victory on the road, the Washington Senators won it and Walter Johnson pitched it. Naturally, the people of St. Louis cannot imagine a more genial place than Busch Stadium, though their perspective may have become a little bleary over the years. Ford Frick was the commissioner in 1953, when Gussie Busch bought the team and wanted to rename old Sportsman's Park Budweiser Stadium. Frick ruled out such crass huckstering, but at 88 Busch has got the last laugh aboard a beer wagon that fetches him to his box before the home games.

Like sedated Clydesdales, the fans of St. Louis have been trained to clomp along to the Bud theme played incessantly as a rallying call. Advertisers might term this subconscious motivation, but it is conscious aggravation to everyone else. And someone seems to open the hatch to the broadcast booth whenever the organist strikes up again. After three days of shouting over an uninterrupted commercial, ABC's Al Michaels, Tim McCarver and Jim Palmer must have been glad to get back to the relative quiet of the Hubert H. Humphrey Metrodome.

Humphrey's presidential campaign song in 1968 was a regrettable selection that went, "Will everyone here kindly step to the rear and let a winner lead the way." From before Humphrey to after Walter Mondale, with a lot of Harold Stassen and Viking Super Bowls in between, the hanky-waving citizenry has been desperate to be known as a winner and to lead the way. Behind 5-2 in the sixth game, they thought about despairing again, until old Don Baylor hit a two-run homer, and Hrbek a grand slam. No team had ever won all four home games in a World Series, but by a score of 11-5 and a grace as big as all indoors, the Twins won the right to try. Meanwhile, back in St. Louis, the headline writers stood by wondering which it would be—THIS BUD'S FOR YOU! or NO JOY IN BUDVILLE. —*By Tom Callahan*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